



Seedco

*Innovations in Community Development*

Prepared for Seedco by  
KRISTEN J. MCCORMACK  
With  
SARAH EISINGER

With support from  
**MetLife Foundation**

January 2005

# PROFITING FROM PURPOSE

Profiles of Success  
and Challenge in Eight  
Social Purpose Business



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in Eight Social Purpose  
Businesses

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## Foreword and Acknowledgments

In 2003, Seedco received a grant from the MetLife Foundation to document the work of its Nonprofit Venture Network (NVN), which provides pre-development grants and technical assistance to community-based human service and youth-serving nonprofit organizations to prepare them to launch business ventures. To date, NVN has worked intensively with nearly 40 organizations in New York City, Tampa Bay, and Boston to develop their capacity to launch social purpose businesses.

Volume I of *When Good Work Makes Good Sense*, documenting case studies from the first two years of NVN, has proved to be a valuable document to our grantee organizations and to the wider social enterprise field. Now we offer a new set of companion publications: This report, edited by Kristen McCormack of the Boston University School of Management, features profiles of four new youth-serving organizations experimenting with ventures and four previously published cases. *The Double Bottom Line*, a companion piece prepared by Ira Cutler of Cornerstone Consulting, offers a midpoint analysis of NVN's work.

We are grateful for the work of Kristen McCormack, Director of the Public and Nonprofit Management Program at Boston University School of Management, on this report. Her observations on the organizations profiled here has resulted in an incisive and timely report on the state of social venture—from the point of view of the organizations actually taking it on.

This report would not have been possible without the support and imagination of the MetLife Foundation, whose officers, Sybil Jacobson and April Hawkins, are longtime advocates of NVN.

We would of course also like to thank the Executive Directors and staffs of the organizations who allowed us entrée into their work: Lori Kaplan of Latin American Youth Center, Nancy Carstedt of the Chicago Children's Choir, Wendy Sealey and Alston Green from Harlem Textile Works, and Pat Gray from The Food Project all graciously and candidly shared their insights, successes, and challenges with us. We are also grateful for the ongoing participation of The Women's Home, Artists for Humanity, The Delancey Street Foundation, and The Fifth Avenue Committee. We are inspired by their work and commitment.

Finally, I would like to thank Sarah Eisinger, Alma Mends, and the other Seedco staff who worked on this project for their efforts in documenting these success stories.



Diane Baillargeon  
President  
January 2005

## **Introduction**

Imagine a business venture that has all the money-making savvy of a for-profit enterprise, the social service goals of the public sector, and the mission-driven zeal of a nonprofit organization. Harnessed together, those qualities ought to put the previously unreachable within grasp: innovative, market-based solutions to social problems, generating both financial resources and social value.

That line of thinking inspired a new approach to social enterprise in the 1990s that has grown rapidly in the current decade. Known variously (and often interchangeably) as social entrepreneurship, social purpose businesses, social or nonprofit ventures, nonprofit business development, and earned income ventures, these hybrids blur the lines between nonprofit and for-profit businesses. They follow a variety of models:

- Some are structured as nonprofit businesses. Their income supports both the social venture and other programs operated by the nonprofit organization with which they are affiliated.<sup>1</sup>
- Some are structured as for-profit businesses. Their profits are divided between the social venture and a return on investment for owners, which frequently are nonprofit organizations that use the profits to support other programs.
- Some businesses calculate a numeric value for the social return generated by their financial investments.<sup>2</sup> Others focus on income earned, which can range from 19 to 56 percent of the venture's budget.<sup>3</sup>
- Many social purpose businesses are structured to provide training and employment for people with special needs, such as those who are or recently were homeless. In this sense, the businesses extend the parent organization's programming while also generating revenue.

Despite the range of models, all social purpose businesses pursue a “double bottom line”: They seek both to meet a social need and generate a financial profit.

In 2001, with support from the MetLife Foundation, United Way of New York City, Mizuho USA Foundation, and the Eckerd Family Foundation, Seedco established the Nonprofit Venture Network (NVN) to stimulate and support the development of social purpose businesses. NVN is now additionally supported by the United Way of Massachusetts Bay. NVN is a targeted strategy that provides nonprofits with specialized technical assistance to develop and operate social purpose businesses.

Seedco does not require an organization to generate a specified percentage of earned income to qualify as a social business venture, nor does it expect nonprofit organizations to launch commercial enterprises simply to make money. Instead, NVN defines a social purpose business as “a business activity started by a nonprofit organization that applies market-based solutions for the purposes of furthering the mission of the organization, generating income and addressing social needs.”

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<sup>1</sup> Institute for Social Entrepreneurs, 2002.

<sup>2</sup> Roberts Enterprise Development Fund, 2002.

<sup>3</sup> Larson, 2002.

This compilation describes the history and context, business strategy and structure, operations, outcomes, and next steps for activity in eight nonprofits:

- The Chicago Children’s Choir (Chicago)
- Harlem Textile Works (New York City)
- Artists for Humanity (Boston)
- The Women’s Home (Houston, Texas)
- The Delancey Street Foundation (San Francisco)
- The Fifth Avenue Committee (Brooklyn, New York)
- The Latin American Youth Center (Washington D.C.)
- The Food Project (Boston)

Four of these cases appeared in the report *When Good Works Make Good Sense: Social Purpose Business Case Studies*, released in May 2003. The addition of four new case studies rounds out a broad selection of nonprofits at different stages of new venture implementation.

The organizations profiled, like most social enterprises, all engage in activities that help nonprofit entities “diversify funding, build stronger relationships with constituents, and improve visibility in the community.”<sup>4</sup> But within that broad scope, approaches vary. Some organizations, while eager to help hard-to-employ workers, are equally driven to make money. Others structure their businesses in ways that fit their mission but would be hard to replicate in the typical business world, such as one organization whose workers all live onsite. These differences have a profound impact on the context in which the ventures operate and the steps they take to reach their goals.

Each case study illustrates a variety of lessons. Each demonstrates a different approach to nonprofit ventures and a distinct set of future challenges. Individually, the cases provide useful examples of the situations that nonprofit organizations face when developing business ventures. Collectively, they reveal the breadth of strategies, options, and lessons available to nonprofit ventures.

We offer the cases and their lessons as a tool to augment the Nonprofit Venture Network’s training curricula and to inspire further discussion. Each case illustrates different aspects of the Learning, Planning, and Implementing phases of a social venture. The cases also provide a basic framework for understanding how social ventures work—and don’t work—in a variety of contexts. Each case study begins with a summary of business highlights and ends with a summary of lessons; each also contains a set of questions to facilitate discussion. Our hope is that you will have the opportunity to learn from their work and apply it to your own.

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<sup>4</sup> Ibid.





Each year the Chicago Children's Choir brings together nearly 3,400 young people, ages seven to 18, in the shared pursuit of musical excellence and personal growth.



## **PART ONE: Learning**

### **Singing a New Tune: The Ventures of the Chicago Children's Choir**

#### ***Overview***

The Chicago Children's Choir (CCC) is a well established, youth-serving organization steeped in history. However, its passionate, entrepreneurial leader had a much broader vision for the organization.

CCC brings together 3,400 young people in:

- Over 70 school-based and neighborhood choirs
- A 100-voice Concert Choir
- The Choir Academy, the only arts-based charter school in the city of Chicago
- A Ben & Jerry's PartnerShop, independently owned and operated by CCC

#### ***History and Context***

The Chicago Children's Choir was founded by the late Reverend Christopher Moore in 1956 on the belief that youth from diverse backgrounds could better understand each other, as well as learn about themselves, by learning to make beautiful music together. Now housed in Chicago's Beaux-Arts landmark Cultural Center, each year the Chicago Children's Choir brings together nearly 3,400 young people, ages seven to 18, in the shared pursuit of musical excellence and personal growth. CCC programming includes:

- *Tuition-free in-school program*—The Choir offers music literacy education, vocal training and performance opportunities in 50 Chicago schools. This program has allowed more than 2,200 children to acquire poise, increase self-esteem, and reap the rewards of hard work and discipline through the development of their musical and performing skills.
- *Tuition-based after school programs with scholarship assistance*—CCC offers neighborhood-based choirs on beginning and intermediate levels in several Chicago neighborhoods. This program provides advanced training for youth who have progressed from the in-school program. Members of these choirs perform at local concerts and conduct mini-tours.
- *Concert Choir*—The Concert Choir is an advanced ensemble performing at over 100 concerts a year both nationally and internationally, and characterized by the 'Red Jacket,' worn by members. The 120 members of this accomplished performing unit range from ages 10 to 18 and are selected based on musical skill. The Concert Choir is one of the largest choral performance and training groups of its kind in the nation, with more than half of its members being minorities from low-income families.
- *Choir Academy*—This public charter school offers in-depth academic and social development for Chicago-area students using music as an organizational focus. The heart of the program is the belief that an education immersed in and focused through music will yield better prepared, more energized and successful students, both academically and musically.

### ***The Path to Social Enterprise***

In 1997 Nancy Carstedt, CCC's executive director, was awarded a Chicago Community Trust Community Service Fellowship. While spending a sabbatical year away from her position, Carstedt toured the nation to meet with social entrepreneurs and investigate new partnerships that might serve as models for the CCC. Carstedt recognized that CCC had the potential to use entrepreneurship as a tool to further its mission. She was sure the organization could become more self-sustaining and less reliant on donors for its survival.

On one of her visits Carstedt met Horace Turnbull, Director of the Boys Choir of Harlem and the Choir Academy of Harlem, a public school within the New York City Public School system. The meeting sparked Carstedt's interest in developing a similar choir-based charter school in Chicago. She believed this type of social enterprise would allow the CCC to generate a new revenue stream for the organization as well as expand its mission, marketability, and reach within its community.

### ***Board Readiness***

Carstedt's idea for a Choir Academy was met with some skepticism and resistance from the Board of Directors. It would not be easy to convince the Board that expansion into this area was a good idea. While Carstedt firmly believed that the time had come for CCC to find creative ways to maintain and grow its income generating activity, rather than constantly depend on donations or foundations and government grants for sustainability, the Board was concerned that the new venture was not related to the core mission of CCC, and that the charter school would take the focus away from CCC's successful Concert Choir and other programs.

Over the next four years Carstedt worked to educate the Board of Directors on the benefits the Academy would bring to the CCC: A charter school would allow the CCC to diversify its funding base, since the Academy would receive significant public funds for the students it served. Additionally, the Academy would draw new individual supporters to the CCC—donors who were interested in the mission of educating urban youth through music. Carstedt deeply believed that the Choir Academy would be not a distraction from the CCC's mission, but an expansion that would provide more opportunities for disadvantaged youth to learn about music in a new way. Finally, the Choir Academy would be part of a national replication project of the already successful Boys Choir of Harlem Academy in New York, making this expansion less risky.

Yet the Board was not convinced. Its members had been Directors for many years and were cautious about any new direction. The most influential and powerful members were resistant to the idea of the school, as they believed it was not related to the CCC's core mission and would take the focus away from the efforts of the Concert Choir. Board members voiced concerns that the new enterprise would distract Carstedt from existing programs and that funds would be redirected to the new enterprise at the expense of the old. But Carstedt was not so easily deterred. Through diligence, patience, and good timing, Carstedt eventually was able to gain the support of a few Directors; others, though, still did not believe that the Academy venture would be beneficial.

However, in 2000, as a result of limitations in Board tenure and in accordance with organizational by-laws, many of the more cautious Board members were replaced. The new members were more open to the idea of the Choir Academy, and majority opinion began to shift in favor of opening a charter school. With a Board that shared her vision for the organization, Carstedt was able to begin moving forward her plans for the Choir Academy.

### ***Opening the Choir Academy***

The Board did have some requirements for the charter school to minimize risk to the Choir. The Choir Academy was required to become a separate 501(c)(3) nonprofit organization from CCC, with a separate board governing its activities. Carstedt was able to create a new Board, which included two existing CCC Board members who were especially enthusiastic about the new school. Carstedt became the President and CEO of both organizations, although legally they existed as two separate entities.

The Choir Academy opened in fall 2001 with 150 students in grades four through six. By fall 2003, the Choir Academy had expanded to include seventh and eighth grades, and plans were being made to expand to additional upper grades. However, Carstedt and the Board encountered many challenges in opening the Academy.

### ***Real Estate***

The high cost of real estate and the accompanying issues of finding a school building proved formidable. Today the Choir Academy is housed in a renovated school building in the McKinley Park neighborhood of Chicago, which is mainly accessible by car. The site is not ideal, and plans are being made to move to downtown Chicago. The new location would be much easier for students to get to, though with added expense, and would open the doors to new students who would otherwise not be able to attend. High building costs, including rent, maintenance, and utilities, also put a strain on the Academy's budget. As a result, the Choir Academy conducts monthly finance committee meetings to ensure careful oversight of finances and cash flow.

### ***Fundraising***

While the state reimburses the Academy for tuition, this amount does not cover all the operating costs of the school—the Choir Academy still needs to raise approximately one-fifth of its total budget every year. And while the Choir Academy has been very successful in raising money, this effort requires an intense effort from Carstedt and the management team, already overstretched with other responsibilities.

### ***Expansion Requirements***

The Choir Academy opened with the promise to parents and the state authorizing agency that it would add one grade per year up through the 12th grade eventually growing to 500 students. The fourth, fifth, and sixth grades are now in solid shape, but the seventh and eighth still have challenges related to curriculum and staffing. Adding a high school in addition to an elementary school and a middle school could prove daunting; state curriculum and staffing requirements for high schools are more rigorous than for the lower grades.

### **Outcomes**

Measuring impact at the Choir Academy is straightforward: Public schools within the Chicago school system are judged by test score performance, and students receive grades. With test scores as a clear barometer, schools either succeed or fail. The Academy aims to be a school of excellence, but thus far has achieved middle-ranking test scores as compared with Chicago's other charter schools. Looking forward, Carstedt sees a leadership change at the school imminent; she is looking for someone who demands discipline, has high academic expectations, and is optimistic about achieving higher test scores in the coming years.

Attracting students diverse in age, race, class, and gender is an important success factor to CCC, as it was founded on the belief that youth from diverse backgrounds have a better chance of learning to understand each other, and themselves, when they make music together. The Choir Academy has stayed true to this vision. Jan Yourist, principal of the Academy, noted the diversity present in each classroom: Some kids are dropped off in limousines and others come from boarded-up buildings, yet all are together in the classroom, and teamwork is emphasized, bridging divides. The Choir Academy, then, has afforded CCC the opportunity to expand its reach and achieve its mission more effectively and on a greater scale. "The Choir Academy," says Yourist, is "a school of choice for kids who don't have a choice."

At the Concert Choir as well, success is measured by the young singers going on to higher education. Currently, a striking 99 percent of singers go on to college. The level of talent and achievement of Concert Choir participants has been raised since students of the Academy, who receive training five days a week, can now audition for the Choir. The Choir also measures its success by the number of major performances and tour dates, which continue to grow.

### **Cultivating Opportunity**

The challenges are real, but the creation of the Choir Academy has created opportunities as well. CCC has broadened its base of financial support, looking to new funders who support youth education for disadvantaged or low-income youth. The Academy is now not competing with CCC to attract funding. In addition, the Academy has given CCC a new way to talk about and sell its programs, which may make it attractive to its existing funders.

#### **"It's Like Another Family"**

Christophe Horton and Erica Stearns have been with CCC through most of their youth.

"The Choir has become a big part of my life," says Christophe, a member for nine years. "It's like another family for me." Erica, a member for seven years, adds that the choral director "is a second mom to me."

Christophe and Erica have dedicated countless hours to CCC and have toured all over the world with the Concert Choir. Erica has visited Germany, Hungary, Austria, and other countries in addition to traveling around the United States, singing at legendary venues. Both are also Singing Scoopers at the Ben & Jerry's PartnerShop. Christophe thought it would be a fun way to save money for college. Erica thinks it's a perfect way to gain job experience her time commitment to the Choir would otherwise preclude.

In addition to strengthening their musical skills and gaining work experience, Christophe and Erica have also learned to be more tolerant and understanding of people with different backgrounds.

Although there was an initial culture shock, they agree that the Choir has taught them to communicate with different people, not to pass judgments, and most of all, to respect their peers.

### ***Expanding to New Ventures***

With the Choir Academy up and running, Carstedt quickly moved forward on other ideas she had been cultivating. One major initiative is the creation of a Ben & Jerry's PartnerShop. This social enterprise furthers CCC's mission by creating employment opportunities for youth involved in the Choir while raising the visibility of the organization. By being involved in the PartnerShop program, youth from low-income families, who often have to choose work over the Choir, can still maintain a tie to CCC.

The PartnerShop, located in the downtown Loop, opened in fall 2003 after a very intense and challenging six-year planning period. Although it is still too early to predict the success of this enterprise, the PartnerShop is already meeting its expenses and does not drain any of the organization's resources. PartnerShop employees are involved in the operations of the store, and are known as "Singing Scoopers," performing songs in random intervals for customers. This marketing gimmick attracts customers to the store and promotes the musical mission of the organization by demonstrating the singers' skills to new audiences. Not only is CCC able to sustain its mission through the PartnerShop, but it is able to expand its programmatic activity by developing new ways to deliver its services, thereby promoting and expanding opportunities for youth.

### ***Future Plans***

The Chicago Children's Choir's path to becoming an entrepreneurial organization was facilitated by a dynamic and entrepreneurial leader. In 1999, Nancy Carstedt was chosen as a Fellow for the Denali Initiative, a three-year training and development program with emphasis on social enterprise and entrepreneurship. This experience helped Carstedt to shape and execute her ideas. Carstedt is recognized as a successful social entrepreneur for her innovative ideas and strategic planning in helping nonprofit organizations become more self-sufficient. Her passion for the mission of the organization as well as her recognition of the importance in incorporating new, revenue generating ventures, made Carstedt more than well equipped to guide the CCC to becoming a self-sustaining organization. But Carstedt's hopes of growth for the CCC do not stop there; plans are in the works for future ventures including developing a recording studio, which she hopes to have in place before she leaves.

### ***Lessons for Success***

- **Leadership matters.** Without Nancy Carstedt's leadership, many of the challenges faced by CCC may not have been overcome. A clear vision of how the enterprise is related to the mission and will expand opportunities for youth drove Carstedt to push forward with her plans and find solutions to overcome obstacles.
- **Board readiness and support are key.** The turnover in the Board of Directors was a crucial turning point in the creation of the Choir Academy. Carstedt needed a Board that would support her vision to bring CCC to a new level of programmatic activity. Although there were many Board-related challenges, Carstedt was able to find the right mix of people who both believed in what she was trying to accomplish and sought to minimize risk to the organization.

- **The governance structure of an organization will affect ventures.** CCC by-laws called for term limits on Board membership. Had this not been the case, the Choir Academy may never have opened.
- **It's important to find new ways to implement the mission.** By continuing to be innovative in finding ways to encourage youth to embrace diversity through learning music, CCC is ensuring its viability and finding creative ways to engage new and existing funders.
- **Exposure to risk should always be minimized.** By the Board's requirement, CCC required that the Choir Academy become a separate nonprofit organization with an independent Board, resulting in less risk to CCC itself.
- **The cost and complexity of owning or leasing real estate should not be underestimated.** The space requirements for any new venture must be carefully understood and the costs associated with the space must be clearly documented. Renovations on average take twice as long and cost twice as much as was budgeted.
- **Sabbaticals can be beneficial for the growth of an organization.** While Carstedt was already an entrepreneurial leader, her sabbatical gave her time to reflect on past experiences and envision a broader future for the organization. Time away from the organization allowed her to focus more directly on future plans.

***Discussion Questions***

1. In addition to Carstedt's entrepreneurial spirit, what other factors led to the successful planning and implementation of CCC's new ventures?
2. When starting new ventures how do you determine which programs best fit the core mission of an organization? Were these the best programs for the CCC to add? Why or why not? How else could Carstedt and her staff have invested their time?
3. What will the long term impact be of adding the Choir Academy and the Ben & Jerry's PartnerShop to the CCC? What might the best case and worst case scenarios look like?
4. If the Board by-laws did not require the cautious Board members to depart, what could Carstedt have done in order to move forward with the Choir Academy?
5. Are the Choir Academy and PartnerShop, deemed social enterprises by Carstedt, truly social enterprises? What defines being a social enterprise?
6. If the CCC could only add one new venture to its menu of opportunities, should it choose the PartnerShop or the Choir Academy? Why?
7. Has either of these ventures been beneficial to CCC financially or programmatically? How? What additional information might you need in order to best determine your answer?





Harlem Textile Works provides arts education and professional internships to underserved students and artists interested in textile arts and fabric design.



## **Designs of the Future: Harlem Textile Works**

### ***Overview***

Harlem Textile Works creates career opportunities for underserved students and artists interested in urban-based textile arts and fabric design by providing arts education, professional internships and entrepreneurial experience. Harlem Textile Works offers:

- Design as enterprise: More than 250 young people have gained marketable skills through this young artist internship program
- Design and production services for dozens of community organizations each year
- Original designs for hand-printed fabrics and products sold to local fashion designers
- Hands-on workshops and classes for audiences of all ages and backgrounds

Harlem Textile Works is an integral part of the Harlem business community, generating jobs and revenue.

### ***History and Context***

Harlem Textile Works was founded in 1984 as a revenue-generating program of the Children's Art Carnival (CAC), an arts education and training institution in Harlem. CAC launched Harlem Textile Works to produce and sell a line of children's home furnishing, inspired by student artwork. While the programs were strong, the activities were not successful at generating revenue for the Children's Art Carnival.

After 10 years, CAC spun off HTW as a separate nonprofit organization. Kerris Wolsky, the founder and leader, was dedicated to design, production and youth development. She created the *Design as Enterprise* textile-training curriculum as the core program for youth. Through her broad base of support in Harlem, as well as the design and production community, she established a series of original Afro-centric designs. These designs were used to create retail products such as clothing, accessories, home furnishings and fabric yardage. The products were sold in area retail stores. In addition, Wolsky licensed designs to major corporations such as JC Penney and Hallmark. As a secondary product line, HTW screen-printed custom T-shirts for schools, churches and other community organizations.

In its first five years, HTW grew significantly and established itself as a strong force in the Harlem community. Kevin McGruder, Board Chair, cited HTW's primary strengths as:

- A youth development program that links creativity and economics in the minds of participants. The youth who participate in the program see that there are numerous careers in which they can capitalize on their creativity and artistic abilities.
- The ability to generate earned income through the sale of products that are in demand. Selling products is internally motivating because it demonstrates the value that others place on the artistic vision of the organization. In addition, selling products allows HTW to be more visible in the community.

The primary goal of HTW is to provide Black and Latino youth with career opportunities through internships and entrepreneurial experience in urban textile design. HTW's design work embodies the vigor of its Harlem neighborhood. The only New York fabric design workshop to focus on youth, HTW works to develop and cultivate a positive self-image among its participants, who are often excluded from the labor market. In addition to its goal of helping under-served youth establish a career in the textile industry HTW offers design and printing services for nonprofits, individuals, and for-profit organizations. To reach its goals successfully, HTW educates its students in design, production and sales, and also helps them develop a career path, all while generating revenue through earned income activities.

A variety of programs reaching 8,000 individuals of all ages has been implemented by HTW to ensure that they are constantly working toward their goal of providing youth career opportunities and an outlet to exercise their creativity, while operating a social purpose business. HTW offers textile and production design workshops to students in public schools, as well as at their site for individuals, year round. HTW's central youth development program is known as *Design as Enterprise*. Interns in the program learn to produce and sell textile products. For example, students in the 2003 session created an original logo that they then incorporated into a product that they designed. The students handle each aspect of the merchandising process from design and production to pricing and sales. Student-designed textiles are now available online. A summary of HTW programs appears below:

- **Design as Enterprise** offers internships to area young people, who work alongside senior artists to learn about surface design, custom screen-printing, sales and merchandising. More than 250 young people have gained marketable design skills through the program.
- **Design and production services** for dozens of community nonprofit organizations each year provide an array of products, including designs, fabric and decorated apparel including tees, sweatshirts, scarves, aprons and tote bags, for more than 7,000 of their constituents.
- **Original designs for hand-printed fabrics and products**, created by HTW's studio artists, are sold to local fashion designers. HTW contracts original designs to consumer goods manufacturers and undertakes production contracts with museums, libraries, zoos and other institutions.
- **Hands-on activities for audiences of all ages and backgrounds**, including demonstrations and workshops, are presented to more than 300 individuals and a broad list of community organizations each year. Specially designed workshops for children send HTW artists into the classroom.

### ***Leadership, Tragedy, and Transition***

In 1999, Wolsky passed away suddenly, sending HTW into a tailspin. As a visionary leader, Wolsky had embodied the organization. The Board was dedicated to continuing the youth programs and revenue generating activities, but much of the institutional knowledge was gone. For example, at the time of her death, Wolsky was negotiating with a major banking institution to create fabrics with a money theme to hang in the lobby of the bank's New York headquarters. Unfortunately, this project was never completed. HTW's current art instructor still has the initial design swatches that were presented to the bank's managers.

The heartaches continued for HTW over the next three years. A fire at their space destroyed inventory and forced the organization to relocate. The Board secured free community space at a public school on 135th Street. After two years there, the school board reclaimed the space for its own use, causing HTW to rent a small administrative office and to curtail its on-site printing. Given the movement and general upheaval, it was difficult for the organization to re-establish itself. Earned income revenues dropped from \$63,000 in 1999 to \$43,000 in 2002.

In October 2002, HTW hired Wendy Sealey, who had been a director at the Social Enterprise Alliance (SEA), as Executive Director. Sealey had managed SEA as it evolved from an annual conference to a preeminent national membership association for social entrepreneurs. HTW's Board believed that Wendy understood their vision and could execute their programs with focus on the bigger picture—rebuilding HTW as a self-sustaining organization. The Board believed she had the ability to grow the organization based on her social enterprise and youth experience. Wendy hit the ground running, navigating her way through the demands of numerous stakeholders—from funders to community leaders to the youth.

### ***Developing a New Vision***

Sealey inherited an organization with a pre-established history and legacy. The Board's vision was strongly connected to the past, the community had expectations that HTW would continue operating the same way it had in previous years, and promised funding did not materialize. The intimidating situation required a strong leader with self-confidence and persistence.

When Sealey came on board, HTW had a solid base of stakeholders and community supporters. The organization had built a good relationship with the community during its early years. This support was positive, but also brought a series of expectations around continuing to operate the programs in the same way HTW had worked in the past. In addition, because the organization had been in flux for several years, some previous stakeholders—especially funders—no longer supported the organization.

### ***Strategic Planning***

With the lease signed and design plans finalized, Harlem Textile Works (HTW) was anxious to begin construction and move into the prominent store-front facility in Hamilton Heights, Harlem. However, the space in Hamilton Heights sat empty for over a year as uncertainties in funding stalled construction.

In the meantime, the organization was planning the activities and programs that would be implemented in the new space. The Board was focused on continuing Kerris Wolsky's vision for the organization, but had not gone through a structured strategic planning process. In early 2003, HTW received funding to hire consultants that would assist with the development of a strategic plan. After reviewing the organization's history and talking with stakeholders, the consultants focused the plan primarily on how to more effectively utilize its Board. This would require transitioning the Board from a managing role to a fundraising role. With Sealey's expertise, the Board no longer needed to oversee day-to-day operations.

While leading the organization toward a more effective structure, Sealey also needed to revisit the artistic vision of the organization. She assembled a Design Advisory Board consisting of leaders in textile design and production as well as local artists. This Board solidified Sealey's own vision to move from a singular focus on Afro-centric designs to a broader approach centered on "urban" design. Urban design is a fashion category that includes large, well-known brands such as Sean Jean, FUBU and J. Lo, which appeal to the youth in HTW's target community. This style is more in line with what young people are exposed to every day and represents a more tangible linkage between creative skills and career or higher education goals. HTW will continue to print fabrics and accessories using its original designs, but its youth training curriculum has been updated for the urban style.

### ***Implementing the Strategic Plan***

In summer 2003, HTW began implementing its strategic plan. Three Board members stepped down due to other career obligations. While this was a difficult transition for the organization, the Board and staff embraced the strategic plan and supported this change in leadership. The Board and staff were full participants in the strategic planning process and the recommendations were developed through a consensus process of the Board and staff with the guidance and facilitation of consultants.

The Board and staff implemented the recommendations with full knowledge that when executed, some of the Board members would most likely need to step down and support the organization in other ways. The Board members will now be responsible for helping the organization raise funds and are in strong support of the new artistic vision.

### **From "Going Nowhere" to Achieving Anything**

For the past few months, through a partnership between Harlem Textile Works and her school, Bronx Guild, Jennifer Simmons has been interning with Harlem Textile Works.

Before entering Bronx Guild, Jennifer disliked school. She couldn't take classes that interested her and she wasn't learning. She knew she would like to be a fashion designer, but had no way of pursuing this dream.

According to Jennifer, before she joined HTW she "didn't know anything about art" and her life was "going nowhere." Her previous school gave her little guidance and no creative outlet. She had become convinced that she was untalented and would not succeed as an artist.

Since joining HTW, Jennifer has come to believe that she can achieve any aspirations she has for herself. She has honed her drawing skills and learned to express her feelings through art. She has exhibited her work—collages depicting her visions of Harlem, family, and music—with the other interns.

Jennifer plans to remain with HTW throughout high school, then attend college and pursue her dream of becoming a fashion designer.

The revised Board structure and expanded design philosophy were all developed to support the central mission of youth development in Harlem. When HTW launches activities in its new space, the organization will be able to serve more youth each year, but more importantly, HTW will provide a richer array of experiences for the youth. In the past, HTW served youth through its *Design as Enterprise* program and then employed youth in textile production. The revised model includes both beginner and advanced training programs, internships and employment in design, retail or production, theme-based projects that relate more to the world around them, student exhibits, and the sale of students' products in the retail store. HTW plans to serve approximately 50 youth per year in its new space, with this more extensive program allowing them to explore different types of textile design and production, build a portfolio of designs, and receive mentoring to assist in building a career around creative skills.

HTW aims to generate approximately \$150,000 operating expenses through earned income; this income will come from several product lines:

- Retail sales of new student creations and the original Afro-centric designs at the HTW storefront; other retail outlets such as the Design Studio of Harlem; and on-line sales on the HTW website or E-bay;
- Custom design work, especially home furnishings for individuals or institutions;
- A hands-on workshop for community or private groups through which a larger audience is introduced to design and each participant creates and produces her own T-shirt.

In 2004, HTW hired Monique Delatour, an award-winning textile designer who had worked with Kerris Wolsky in the late 1990s. Monique revised the curriculum for HTW's youth training program. The current students are creating original designs using a collage technique inspired by artist Romare Bearden as well as other creative visionaries of the Harlem Renaissance. The youth have learned basic computer techniques to create different layouts using Adobe Photoshop and scanned images of their original designs. Monique believes that students need to understand the bigger picture of fashion and textiles, including production techniques and sales and marketing strategies. As part of the learning process, Monique recently took her students on a field trip to tour the shop windows along 125th Street to point out new fashion trends and identify effective marketing techniques.

Monique's vision is that HTW become a design house with a reputation for innovative, unique designs. While Monique could open her own design firm or work for a major brand label, she is inspired by the work of HTW and dedicated to its mission of youth development. When asked why she is so dedicated, Monique replied that HTW allows her to create "art that means something."

### ***Moving Forward***

HTW is currently focused on finalizing the funding needed to complete construction and move into its permanent location. Once there, the organization will face the challenge of setting up new operations, scaling up its activities, continuing to raise funds and finding additional staff.

### ***Postscript***

In 2004 Wendy Sealey resigned as executive director. Harlem Textile Works embodies an organization with great purpose and hope of revitalizing its community. HTW's history tells a story of triumph and dedication to its mission. Despite many obstacles, the support and strength of the organization's members and community have allowed it to keep its presence in Harlem. With a new vision and strategy to rebuild its focus of social enterprise, the Board of Directors of HTW is ready to work towards a more successful future.

### ***Lessons for Success***

- **Strategic planning is vital to preparing an organization for change.** Many of HTW Board members had been with the organization since its inception as an independent entity. It is often difficult for a founding board to conduct an objective organizational assessment. With grant support, HTW was able to bring outside consultants to examine the organizational capacity and determine how to structure the role of the Board of Directors to be most supportive of the growth of HTW.
- **Strong and experienced leadership is essential for growth.** HTW hired several Executive Directors to replace Wolsky, but not until Wendy Sealey did they find a person with the right combination of skills and experience to lead them through a restructuring. Sealey brought experience in social enterprise as well as youth development. In addition, she had the maturity and personality to step into the job and be a leader from day one.
- **Managing expectations is the key to building community relations.** HTW's history brought with it a host of community expectations of what HTW could and would do. As Sealey and the Board rebuilt the organization, they met with both support and resistance, and had to hold strong to their vision. Sealey displayed skills in listening, addressing stakeholder concerns, and commanding respect for her strong vision of the organization's future.
- **Real estate projects often take longer and cost more than planned.** Even the best-planned projects often run over budget. In the case of HTW, the organization was relying on federal funds where long delays in funding approval and receipt are common.

***Discussion Questions***

1. How did HTW continue after losing its founding Executive Director? What lessons can be gleaned from this experience? How can organizations insulate themselves from the impact of a sudden departure of a founder?
2. Did HTW have effective leadership? What evidence do you have to support your conclusion? What more would you want to know about Wendy Sealey as a leader?
3. How might HTW's transition to a focus on "urban design" have on the organization? Which stakeholders would and would not support this decision, and why?
4. What leadership skills are needed to turn around an organization in a tenuous position?
5. What would the programs of this organization look like had they continued under the auspices of the Children's Art Carnival? Did separating from the CAC help or hinder the unique mission of HTW?
6. If you were on the Board of HTW, what would you recommend the organization do next?





The Cottage Thrift Shop is a thriving business that provides almost 20 percent of The Women's Home's \$2 million annual operating budget.

## PART TWO: Planning and Implementation

### **Bargaining for Success: The Women's Home/Cottage Thrift Shop**

#### *Highlights*

The Cottage Thrift Shop is a secondhand store operated by a residential treatment center for women. It features:

- Hands-on job training in a real-world setting as a supplement to classroom work;
- Close coordination between the business and treatment programs;
- A manager with both commercial and programmatic experience; and
- A solid base of volunteer support that provides continuity and free staffing.

#### *History and Context*

The Women's Home, a 50-bed residential treatment center in Houston, Texas, provides room and board, psychiatric and nursing services, psychotherapy, and vocational training for women recovering from substance abuse and/or mental illness and domestic violence. Established in 1957, this nonprofit organization's mission is to "help women in crisis regain their self-esteem and dignity, empowering them to return to society as productive, self-sufficient individuals." It is one of only four such centers for women approved by the Texas Rehabilitation Commission, and it is the only one of its kind in the Houston area.

The Home's residents, who can stay up to 18 months, receive residential care; clinical services from psychiatrists, nurse practitioners, psychotherapists, and substance abuse counselors; spiritual support; and vocational training. Residents are referred by hospitals, drug treatment centers, and social service agencies. The average length of stay is one year, and more than 70 percent of the women who stay at least six months depart with a job and a safe place to live.

The Women's Home Cottage Thrift Shop, which sells designer labels in a boutique-like setting, was established as a "therapeutic and empowering" hands-on venue for residents' job training, according to Vocational Training Director Peggy Wilson. "The shop experience is designed to foster personal growth, responsibility, and independence," says Paula Paust, executive director of The Women's Home. "Most importantly, this training builds self-esteem and self-confidence, giving residents the tools to work toward self-sufficiency."

But the secondhand shop, located in the eclectic and gentrifying Montrose neighborhood, is also a thriving business that provides almost 20 percent of the center's \$2 million annual operating budget. Its clean, attractive ambiance and upscale merchandise—donated by a local design center—has earned it a reputation as "the Neiman-Marcus of thrift shops."

The Home has no long-term debt, owns its property, and raised almost \$4.5 million through its most recent capital campaign. Its executive director, Paula Paust, devotes most of her time to development activities.

### ***Business Strategy and Structure***

The thrift shop was designed as an integral part of the Women's Home's treatment program, according to Paust. The business meets several crucial goals for the Home's social mission:

- It is a place where residents can learn and practice new skills. "What they can't do in the classroom, they can learn in the thrift shop," notes Vocational Training Director Wilson, "such as coming to work on time, the right mindset to accept responsibilities, working in teams and with others, and being flexible in job duties. They can also be recognized for achievement in a safe environment."
- Residents gain self-esteem as they learn. Ida N., for example, was distracted when she began working at the shop. She says she had the feeling that her life was over. But after gaining work experience, Ida now views herself as a role model for incoming residents.
- Working in the shop helps residents establish a routine for living, which most have not had in a long time. Their training and workplace emphasizes accountability, responsibility, and time management. In fact, the Home's vocational training team assesses residents' readiness to enter the broader workforce by monitoring their progress at the shop.
- The program teaches residents to take initiative. Workers decide which roles they will play in running the shop, and they help with interior decoration and window displays.
- It gives residents an opportunity to network with each other. Participants discuss what they learn at the shop during peer group meetings, which gives them extra opportunities to learn from each other.

Thrift shop employment is mandatory during the first 90 days of each resident's stay, along with clinical treatment and classroom-based vocational training. During their first three months, residents typically work four 3-hour shifts each week. They are prohibited from leaving the Home's campus during the week and receive homework assignments to complete, including résumé writing and computer training.

Thrift shop manager Sandy Hatcher and her assistant, Clary Hunker, emphasize to residents that their work in the shop is a real job. Hygiene and appearance get special attention, and Hatcher and Hunker can decide which clothes residents are allowed to buy with the vouchers they earn by working.

Because participants enter the business with varying levels of skill and aptitude, training is highly individualized, and success is not measured solely by whether the resident achieves full employment after graduation. “There are women who enter the program who are not able to return to full-time employment,” notes Wilson. “[The Home] helps them get part-time employment or disability income, affordable housing and to develop independent living skills. This income prevents homelessness and/or continuing dependence on abusive relationships. That is a successful outcome for these women.”

The Home also provides job counseling, job intervention, and networking opportunities for graduates of The Women’s Home. Says Wilson, “We’re trying to tie the resident to the organization so she can return to the job bank if her job doesn’t work out.”

### ***Operations***

The thrift shop is open from 10 a.m. to 4 p.m. every day but Sunday. It draws an estimated 130 customers on an average Saturday, when everything is 75 percent off the original retail price; on other days, prices are 50 percent off. The store holds sidewalk sales four times a year, which are advertised. Other than that, little advertising has been necessary. No inventory is taken, because donations pour in at a fast pace. The shop has only solicited donations once, when a flood destroyed merchandise.

These practices generate approximately \$20,000 per month in revenues. As an integral part of the Home’s vocational program, the shop does not have a budget separate from that of the vocational program. Shop Manager Hatcher tracks daily sales, but her input into the program’s budget is limited to what revenues she expects to generate.

Partnerships with three other Houston-based social service agencies give the thrift shop a steady stream of customers, and the shop donates overflow merchandise to another thrift shop and to two agencies that serve homeless populations.

The business is deeply integrated with the Home’s therapy program. For example, thrift shop manager Hatcher attends all clinical meetings where residents’ needs are discussed; as a skills trainer, she is considered a vital member of the clinical and vocational team that assesses residents’ progress.

The Women’s Home has a full-time staff of 17 but also relies heavily on a corps of volunteers to help with the thrift shop and vocational training. Known as the Auxiliary, these workers clock enough hours to equal 10 full-time employees. About 15 to 20 volunteers work regularly in the shop, supplemented by groups of private and corporate volunteers. The Home also is a training site for graduate students in long-term rehabilitation, social work, psychology, psychiatry, and nursing, drawn from the University of Houston, Baylor University, and the University of Texas.

Volunteers are recruited through word of mouth and ads in local newspapers, and they tend to stay a long time. As the volunteer crew has grown, a Community Outreach Committee has formed to further build community awareness.

### ***Outcomes***

Residents who have spent six or more months at The Women's Home experience an 80 percent decrease in hospitalization rates. Of the Home's graduates in 2001, 70 percent left with an affordable place to live—62 percent supported by full-time employment and the rest by Social Security income. An additional 10 percent finished or re-enrolled in school. Of the graduates in 2000, 70 percent were self-sufficient a year later. "Seeing the residents blossom, and their kindness and intelligence come through, is like watching an awakening," says Judy Winograd, chairwoman of the shop and a volunteer herself. "It's very rewarding for the volunteers. We're so proud of the residents' accomplishments."

Residents laud the thrift shop as a "realistic training environment" that can lead to similar jobs upon graduation from the Home. After a year living at the Home and working in the thrift shop, for example, Ida N. landed a part-time job at Macy's and has become a public speaker for the Home. She and many other successful graduates frequently return to the shop to offer guidance to current residents.

There is considerable anecdotal evidence of similar personal transformations. Sandra K., for example, came to The Women's Home after struggling with drug addiction for nine years. She found the requirement that she work in the thrift shop especially challenging. But the experience gave Sandra the discipline and self-esteem she needed for training in computer graphics, which led to temporary jobs and, eventually, a permanent placement as a systems administrator for a local university.

"At first you feel used, like they're getting free labor," Sandra says of her six months at the thrift shop. "Then you realize that by giving something back, you're not a charity case. I wouldn't be where I am today without that experience."

### ***Looking Ahead***

Leaders of The Women's Home are considering opportunities for expansion, including a chain of thrift shops; development of affordable housing for recent graduates of the program; and a line of jams, spreads, and dips that volunteers have developed to sell at local craft events.

Shop manager Hatcher would like to see a second Cottage Thrift Shop open in a Hispanic neighborhood, which she sees as an underserved market. She also believes that the Home could greatly increase revenues by operating several higher-end shops in more affluent communities. Executive Director Paula Paust, on the other hand, sees acquiring housing stock as a logical next step for the Home's residential program. With a solid donor base to tap, it would be easier to buy a

building than to rent one because “people will give to capital campaigns faster than they’ll give to operations,” she notes.

Paust also has considered pursuing accreditation from the Joint Commission on Accreditation of Healthcare Organizations, an entity that accredits all healthcare organizations nationwide. This would give the Home unprecedented access to research, best practices, and other resources. But it also is an expensive process and would increase the complexity of the Home’s management and regulation.

To pursue its long-term goals, The Women’s Home will need an income stream that is more diverse and less dependent on private donors. In the past, the Home did not pursue public funds. During its capital expansion it received its first federal grant from the U.S. Department of Housing and Urban Development. The Home will continue to seek public funds in support of its mission.

Moreover, if The Women’s Home directors decide to open additional stores, they will need to write business plans and consider operational issues more formally than they did with the first shop, Paust says. Planning would include decisions about whether to incorporate the additional stores into the vocational program or make them purely sources of revenue.

### *Lessons for Success*

- **Build a management team with both business and program experience.** It is rare to find a manager who can handle both the commercial and social aspects of a nonprofit venture. In the Cottage Thrift Shop’s case, that means simultaneously helping women in crisis gain self-esteem, job skills, and self-sufficiency and helping the business generate revenue. The thrift shop’s first manager had retail experience but lacked the temperament to work with women in crisis, says Executive Director Paust. But in current manager Sandy Hatcher, The Women’s Home found a person who has both extensive retail experience—she previously owned a Houston consignment store—and a “coaching” persona that fits the Home’s vocational training orientation.

The importance of balancing the two perspectives led the Home to divide Hatcher’s time almost equally between store management and the vocational training division. In that second capacity, Hatcher attends meetings with clinical and therapeutic practitioners to help her understand residents’ needs and to offer her perspective based on workplace observation. Hatcher also helps clinical and vocational staff assess residents’ progress.

Hatcher’s colleagues describe her concern for thrift shop workers as “parental”; indeed, her management style is so supportive that more than half of the businesses’ former workers remain in contact with Hatcher after they graduate from The Women’s Home. Hatcher, meanwhile, credits Paust’s hands-off management style with giving her a pride of ownership in the business venture. She feels personally invested in and responsible for the store’s accomplishments, as both a thriving business and a means of improving women’s lives and she knows that Paust is available as a supporter and advocate of her efforts.

- **Build a solid base of volunteer support.** Volunteer workers are a crucial source of labor for The Women's Home and the Cottage Thrift Shop—so vital, in fact, that Executive Director Paust advises other organizations to consider their prospects for attracting volunteers before launching any social purpose business venture.

***Discussion Questions***

1. What characteristics make the Cottage Thrift Store's manager a successful director of a social purpose business? How do these characteristics align with her job responsibilities?
2. If you had to hire a replacement for the thrift store manager, would you focus more on programmatic aspects or on the applicants' business experience (assuming that you could not find someone with adequate experience in both)? How would you make up for a lack of experience in either area?
3. Is the thrift store succeeding? How do you know? What additional information do you need to answer this question?
4. Could the thrift store do better financially? How do you know? What additional information do you need to answer this question?
5. Could the thrift store be more useful to residents of The Women's Home? In what ways?
6. What potential threats does the store face?
7. Should The Women's Home expand its social purpose enterprises? What are the advantages of each of the expansion options? How do the expansion options fit with the Home's core competencies? What types of organizational capacity are needed for the different expansion options?
8. Should the expansion options be integrated with the mission or chosen strictly on the basis of potential to generate revenue?
9. Does the thrift store rely too heavily on volunteers? What are the advantages and disadvantages of using volunteers as core staff of a business?





After school and during the summer, Artists for Humanity programs offer young people the opportunity to learn painting, silk screening, architecture, photography, sculpture, and graphic design from paid "mentor" artists.

## **Painting a Better Future: Artists for Humanity**

### ***Highlights***

Artists for Humanity (AFH), located in Boston, operates art and entrepreneurship programs for urban youth. The programs feature:

- A commitment to innovation, creativity, and flexibility;
- Opportunities for youth to learn both artistic and business skills;
- Mentoring by young professionals; and
- Hourly wages for many participating students, and payment of some profits to student artists who sell their work.

### ***History and Context***

After school and during the summer, young people participating in AFH programs learn painting, silk screening, architecture, photography, sculpture, and graphic design from paid “mentor” artists. The staff and students market their fine art through exhibits and graphic design services, using the profits to support future projects.

AFH Executive Director Susan Rodgerson, a painter and entrepreneur, founded the organization in 1990. Rodgerson had successfully raised funds for the preservation of Native American lands through art exhibitions and auctions, organized an after-school drawing program for kids, and founded a fashion accessory business that grossed more than \$1 million in sales. “Youth need to be given a voice, not just for their own benefit,” Rodgerson says, “but because adults need to hear that voice.”

In 1990, Rodgerson became concerned about the lack of arts experiences available to students in the city school system. When she approached several schools to initiate a collaborative art project, the principal of Martin Luther King Middle School in Dorchester invited her to supervise a student-painted mural, which a private company later purchased for its annual report cover. That project introduced Rodgerson to six especially enthusiastic and talented boys, who claimed space for themselves in her South End art studio after the school session ended.

Rodgerson realized that the boys’ desire to create was shared by many young people without opportunities to express themselves. She urged her protégés to try to sell their art as an act of empowerment. After a lucrative day of spray-painting tee shirts on the steps of MIT’s Sloan School of Management, the youths decided they would rather pool their earnings to fund another project than divide their profits and be done. They founded Artists for Humanity, with Rodgerson as the group’s executive director. Two years later, AFH gained 501(c)(3) status to pursue its mission of bridging “economic, racial and social divisions by providing inner-city youth with the keys to self-sufficiency through paid employment in the arts.”

### ***Business Strategy and Structure***

AFH is founded on the premise that young people need to express themselves and develop the tools to achieve self-sufficiency. Its dual mission is to give students freedom to grow as artists while helping them develop skills and appreciate the commercial value of art.

At the outset, Rodgeron had no intention of establishing a nonprofit business. “But I soon realized,” she recalls, “that nonprofit status was a way of getting the seed capital to be able to run the business, and that a combination of earned and raised revenue would allow the organization to meet its social goals as well as its operating needs.”

Rodgeron has written five different business plans in 10 years. Finding the right sales strategy has been a particular challenge. Most corporate buyers didn’t grasp the concept of purchasing youth art. Nor did they know how to react to a hybrid business that blurred the line between profit and nonprofit. Rodgeron’s phone calls were inevitably transferred from the sales department to the charitable giving office before she could make her pitch. “I wasn’t looking for a handout; I wanted to be paid for a valuable product or service,” she recalls in frustration. “But in the early ‘90s, the idea of social entrepreneurship was just beginning to develop.”

To reduce the confusion, Rodgeron adopted a “doing business as” name for AFH, the City Teens Design Company. The strategy worked, and eventually AFH was able to revert to using its own name. But Yhinny Matos, who oversees AFH’s marketing efforts, says she still has to address misunderstandings daily. “They want to talk about grants, we want to talk about holiday card sales,” Matos says.

Although initial sales were so weak that Rodgeron supported AFH with her personal credit card, AFH now has an annual budget of \$1.2 million. The money comes from private foundations (36 percent), sales (25 percent), in-kind donations (15 percent), corporate foundations (12 percent), governmental sources (8 percent), and individual donations (4 percent).

AFH does not expect all art to generate revenue. In fact, when a tradeoff must be made, the organization consciously chooses to empower students to follow through on their ideas rather than making a purely commercial decision.

### ***Operations***

Rodgeron employs eight full-time and six part-time staff members (including three co-founders), most of whom are in their late 20s. The organization works with more than 500 young people every year, of whom 100 are full-time “apprentices” who receive a minimum of \$8.50 for every hour spent in the studio. The rest, known as “associates,” participate less than full-time; they are given full access to AFH’s facilities but do not receive wages. Students typically enter the program during their first year of high school and work for the full four years until graduation. Every participant must log 720 hours as an unpaid “community partner” to become eligible to earn wages.

When a piece of art is sold, the artist receives a percentage of the selling price, unless she has brokered the deal independently, in which case she pockets 100 percent of the sale.

Enthusiasm permeates the AFH studio, where students clearly are having the time of their lives as they create and sell art. Damon Butler, a co-founder and mentor, attributes this energy to AFH's commitment to innovation and creativity. "There isn't a single thing that's routine," he says.

The presence of young professional mentors keeps the organization grounded in its roots and provides role models for participants. According to Butler, much of the mentoring job entails motivating the participants to apply themselves and look for challenges. "I definitely kick people in the butt when they are not trying hard enough," he says. Rodgerson has fired youths who don't pull their own weight.

For the most part, however, Rodgerson's empowerment strategy works well. Carlo Lewis is a good example. One of AFH's co-founders, Lewis went on to attend the Rhode Island School of Design as an architecture major. When Rodgerson was evaluating options for a new building to house AFH, she encouraged Lewis to submit a proposal, and she and the AFH Board eventually accepted it. Lewis is now working alongside the architectural firm hired to oversee the project, and as an AFH mentor he is helping 10 students develop specific design elements of the building.

Young participants frequently have opportunities to gain authority and take responsibility; as Resource Director Patrice Maye says, "They help lead the organization. They are the model." Recently, for example, a 24-year old mentor appointed a 16-year old student project leader for the design and implementation of a full-scale mural at a major medical center.

### **Outcomes**

Since 1996, AFH has collected more than \$1 million in sales of student paintings, T-shirts, graphic design services, holiday cards, brochures, and murals; exhibitions of AFH art; and rentals of the AFH studio for corporate meetings. Current annual sales are approximately \$250,000, a number that has grown steadily for five consecutive years.

AFH has employed nearly 500 at-risk youths. The organization monitors participants' progress in several ways. An intake form collects data on the background and demographics of each new participant and his or her career aspirations and goals for the future. Every six months, students fill out a self-evaluation form grading themselves on personal growth indicators such as their level of motivation, initiative, involvement, attitude toward work, respect for others, and capacity for leadership. For each student in their studio, mentors fill out a job evaluation form that collects data on the participant's perceived ability to handle responsibility, take on new challenges, and identify personal strengths and weaknesses.

AFH also follows the progress of students who graduate from the program. In addition, staff measures the annual attrition rate of paid participants, which AFH strives to keep below 10

percent, and follows up with students who leave the program. These activities reveal that most students who leave are not dissatisfied with the program but have conflicting commitments.

### *Looking Ahead*

The declining economy of 2001–2002 provoked some organizational soul-searching and brought about a transition for AFH. The client base is shifting from a few large clients to many smaller clients. Rodgeron and her marketing team are addressing several important questions as a result of this shift: Should AFH focus harder on cultivating larger clients and catering to their needs? Or would a customer base of nonprofit organizations, such as schools and community-based organizations, be more consistent with the mission? In the long run, AFH's goal is to increase its self-sufficiency through both successful fundraising and greater student sales.

The organization has recently completed construction of a \$6 million, environmentally friendly headquarters in South Boston. The new building is both a symbolic and concrete step toward the goals of social action and long-term sustainability. The building generates all of its own energy through solar panels and other renewable sources. And the new space gives AFH more opportunities to hold exhibitions or lease gallery and studio space to other artists, nonprofit organizations, and retail businesses, thus increasing revenue.

AFH is also considering new ways to create customer loyalty, including a possible subscriber package that would give corporations a menu of options for holiday cards, T-shirts, exhibitions, and other services.

### *Lessons for Success*

- **Dare to be flexible.** Risk-taking and experimentation are crucial to creative, entrepreneurial social ventures. When a group of AFH students decided to develop a line of lamp shades, Rodgeron kept her misgivings to herself, and though the idea didn't pan out, she has no regrets. "You can't expect students to develop the entrepreneurship instinct without giving them the opportunity to go through the process," she insists. She concedes that AFH could probably make more money if more staff had professional business experience, but the mission of training artists to become business people is paramount. This does not mean that nonprofit ventures should treat the business side lightly, Resource Director Maye adds—simply that "we adapt to changes in the market, the economy, and particularly the needs expressed by our young people to... sustain our organization while helping the teens create their own sustainable futures."
- **Link financial and emotional investment.** By involving students in selling their art, Rodgeron demonstrates to young people that they are the organization's partners. The sense of ownership that the practice fosters has virtually eliminated any problems with staff.
- **Appoint a Board that shares your vision, and let its composition evolve along with organizational needs.** The first staff person Rodgeron hired for AFH was experienced in managing nonprofit organizations. At this employee's suggestion, they recruited nine enthusiastic Board members from the corporate, public, and nonprofit

sectors. It soon became clear, however, that Rodgerson and her colleague had different visions for AFH's future. It was a fundamental debate over whether AFH should be *either* a nonprofit or for-profit organization or whether it could be a hybrid of *both*—and the Board was similarly divided. Rodgerson ultimately asked several of the Board members to resign and let the staff person go. She now believes that the original Board members represented the right backgrounds, but were in place at the wrong time, without adequate preparation. She now “sells” AFH's philosophy to her prospective board members in much the same way that she approaches potential business clients. AFH is also developing a second Board to focus on fundraising, leaving the first group free to focus on key business, community, and legal issues.

- **Avoid overexpansion.** Rodgerson receives phone calls every week from people across the country who want to replicate AFH in their communities. She usually offers moral support and guidance while resisting pleas for more involvement. AFH has, however, been closely involved with an offshoot called California Artists for Humanity. Rodgerson and Carlos Vera, Executive Director of the California group, sit on each other's Boards, and the Boston organization does much of the fundraising for its California counterpart. Still, California AFH is developing its own characteristics, with Rodgerson's approval. “You create something out of nothing, that's the only imperative,” she says. “I don't want to control the replication process—that would go against our mission.”

### *Discussion Questions*

1. Flexibility in an organization can produce remarkable results, but it also involves risks. What risk factors should a social purpose business like Artists for Humanity consider when deciding whether to implement an idea (such as the lampshades Rodgerson was unenthusiastic about)?
2. When AFH completes its new building, the organization will become a landlord. Is that a good expansion opportunity? Why or why not? What organizational capacities are needed to manage real estate? Does AFH have these capacities? If not, what should the organization do in order to succeed in this new endeavor?
3. AFH's client base is changing, and it is getting harder to attract and retain large clients. Should AFH pursue these clients? Why or why not? If AFH does pursue them, what should the marketing strategy be? What is the cost? What are the alternatives?
4. What outcome measures would be most useful for determining the success of Artists for Humanity?
5. Should AFH expand to other sites beyond the California replication attempt? What are the advantages to expansion? What are the disadvantages?



Delancey Street, established in 1971, is a residential rehabilitation program. It operates several businesses that feature labor-intensive ventures in which individuals develop multiple skills, workers are easily replaced, and the work is not highly specialized.

## **The Substance of Support: The Delancey Street Foundation**

### ***Highlights***

The Delancey Street Foundation is a residential complex and rehabilitation program for former substance abusers and other high-risk individuals. It operates several businesses that feature:

- Labor-intensive ventures in which individuals develop multiple skills, workers are easily replaced, and the work is not highly specialized;
- A commitment to communal living, self-help, and peer support;
- Continuous learning opportunities for workers, reinforced by mandatory rotation through various businesses; and
- Synergy across several types of businesses.

### ***History and Context***

The Delancey Street concept was established in San Francisco in 1971 by John Maher, a recovering substance abuser looking for ways to rebuild his life. Maher saw communal living and peer support as the keys to staying sober and becoming a more productive member of society. He and some friends who shared his circumstances and ambitions pooled their resources to rent an apartment. Recalls a long-time resident, “Those who could work, did. They drew up some by-laws, and then became a nonprofit organization.”

The residents soon outgrew their original apartment and moved into larger quarters in Pacific Heights and the South Market area of San Francisco, holding jobs in various sectors. They remained linked by two important beliefs: Only by sharing a central location and establishing a strong sense of community could Delancey Street achieve its mission of helping men and women turn their lives around; and the operation had to become self-sufficient.

Today, a 350,000-square-foot complex in San Francisco houses 500 former felons, prostitutes, ex-convicts, and substance abusers. Residents receive vocational and educational services through the Delancey Street Foundation. There are similar Delancey Street Foundation centers in Los Angeles; Espanola, New Mexico; Greensboro, North Carolina; and upstate New York.

Delancey Street covers its own operating expenses, financed in part by direct donations (up to \$3.5 million per year from nongovernmental sources) and donated products and services (\$7 million per year). But the organization’s main source of income is the revenue generated by several social purpose businesses operated and managed by Delancey Street residents. These include a Zagat-rated restaurant and café, a national moving company, a limousine service, a van service for seniors, a catering service, and a digital print and silkscreen business. Delancey Street has also cornered the market for Christmas tree sales at holiday time.

In San Francisco, Delancey Street residents live in a housing facility along the Embarcadero waterfront. The maze of pastel stucco buildings and Mexican tiled walkways, much of it hand-built



by residents, stands as a monument to the power of people working together to achieve a common goal.

### ***Business Strategy and Structure***

After founder John Maher heard criminologist and psychologist Mimi Silbert speak at a public gathering, he asked her to visit Delancey Street. Silbert was impressed and immediately began lending her expertise to the budding organization; she is now director of the Delancey Street Foundation. Under her leadership, Delancey's philosophy is one of "mutual restitution": The residents gain the vocational, personal, interpersonal, and social skills necessary to make restitution to the society from which they have taken illegally, consistently, and often brutally, for most of their lives. In return, Delancey Street demands for its residents legitimate access to opportunities that have been off-limits to the majority of them for most of their lives.

Delancey Street has no doctors, therapists, or security guards. Residents of the program serve as supervisors, instructors, and role models to those who enter the program in despair. Stephanie Muller, a former heroin addict, is a good example: After living at Delancey Street for 21 years, she now manages several of its entrepreneurial initiatives and is Silbert's assistant.

Despite the emphasis on communal living, the organization's structure is markedly hierarchical. The residence is organized into three areas, which bear the impressive names of War, State, and Vatican. The War division encompasses all business activities and revenue generation. State takes care of administration and logistics. The Vatican oversees all personal growth activities and decides when residents are ready to leave the gated community to rejoin the outside world.

Managers refer to their commercial ventures as "training schools" because residents are viewed as perpetual learners who are expected to develop several marketable skills. Thus, for example, a new resident who has expertise in a specific area, such as auto repair, will probably be assigned to a completely new role, such as restaurant worker. And residents who have attained a management position within one business unit may perform entry-level tasks in another. All jobs, however, emphasize self-sufficiency, peer support, discipline, and accountability. For that reason, the enterprise is not purely a training or rehabilitation program. "It's part big family or kibbutz and part university," Muller says.

Because of its strategy for training workers, Delancey Street—which does all its own business planning—focuses on highly regimented, labor-intensive ventures that can withstand constant fluctuation in personnel. "Our business plan is to try it, and if it doesn't work, then we don't do it again," says Muller. Business planners also avoid businesses that rely on a few workers who have special skills; instead, they favor businesses that rely on several different workers possessing many general skills, working together as a group.

### ***Operations***

Delancey Street's business operations are inextricably intertwined with its personal development goals for residents. Residents must work for their keep, and they receive no compensation. In

exchange, Delancey Street provides almost everything residents need, including clothes, education, and pocket money. (It does not provide professional therapy or medication on the premises, although a few local doctors offer pro bono health services.)

In addition to working full-time jobs—making fresh pesto in the restaurant, for instance, or hauling boxes for the Delancey Street Moving Company—residents are responsible for all activities at the complex. Those duties range from helping fellow residents study for their high school equivalency diplomas to training drivers to replacing loose bricks on the walkway. “When a participant comes through the door,” says John Pavao, a nine-year resident, “he is immediately participating in his own recovery.”

Admission to the program is restrictive. “The word out there about Delancey Street is that it’s a hard program and that you really have to be serious about changing,” says Paul Burch, a member of Delancey’s intake staff. “Here, residents find forgiveness for the past but total accountability from this day forward.”

In general, applicants must be in good mental and physical health and capable of adapting to the social constraints. Although an average of 10 applicants interview daily, and about five receive placement offers every week, not all approved applicants enter the program. Many cannot persuade a judge to let them carry out their sentence or parole at Delancey Street; others need to fulfill certain contingencies first, such as spending time in a detoxification center.

New residents lose virtually all independence until they are deemed capable of operating on their own. “New people are never left alone at the beginning, and they are not allowed to go outside,” says Jerold Miller, a Delancey graduate and longtime resident. “This may last two weeks or three months, depending on whether they are able to deal personally.”

Residents must earn freedoms such as “walking around money,” free time, and better rooms. As a resident develops, he or she begins to mentor others, lead discussion groups, and move into managerial roles within the businesses.

Everyone at Delancey Street must obey three cardinal rules: no drugs, no threats, and no violence. “We’ve had almost no fights even though members of opposite gangs are sleeping next to each other,” Stephanie Muller notes. “But if there is even a sense of threat, that person is *out!*”

### **Outcomes**

Delancey Street’s businesses generate combined revenues of \$17 million annually. The organization’s civic success rate is equally impressive; in 30 years, Delancey Street has successfully rehabilitated thousands of people.

Managers estimate that approximately 75 percent of residents remain law-abiding and drug-free after graduation. “This is the exact inverse of statistics for ex-felons overall,” Paul Burch notes with pride. Not everyone is suited to Delancey Street’s closely controlled living and working

arrangements, and about 20 percent of new residents leave during the first 90 days. After that critical period, however, the attrition rate is very low.

### *Looking Ahead*

The next challenge for Delancey Street is to synthesize its successful elements into a model that other nonprofits and government agencies can use to develop revenue-producing rehabilitation programs for hard-to-serve populations. Creating a replicable model will both widen Delancey's impact and help the organization refine its own operations.

### *Lessons for Success*

- **Choose businesses that match your population's needs.** Two of Delancey Street's initial ventures, a print shop and an auto repair business, failed. Those enterprises required high-maintenance machinery and expensive materials, and the level of worker skill needed conflicted with the organization's goal of continuous learning. From that experience, Delancey Street managers drew the following conclusions:
  - Because the population is transient, a business that relies on a few skilled individuals is hard to sustain.
  - Because perpetual learning is a tenet of Delancey's healing process, residents who develop marketable skills and knowledge must constantly be rotated into new jobs—even those who rise to management levels. Thus staff training is a constant need.

Today, Delancey Street hedges its bets by developing labor-intensive businesses in which individuals develop multiple skills, workers are easily replaced, people work in group settings that promote peer learning, and the work is not highly specialized.

- **Cut costs through synergistic operations.** Whenever possible, Delancey Street managers minimize expenses by linking their business and vocational units. For example, driver training and certification is resource-intensive, so the organization operates a driver training school whose graduates can work for various business units, including the moving company, van service, bus tour company, or limousine service. Auto parts and supplies from one business can be used in others. The restaurant, catering, and café businesses exploit similar synergies with a cooking school.
- **Seek in-kind donations.** Delancey Street managers quickly learned that business decisions were driven in part by how easy or difficult it is to obtain raw materials. The organization therefore established a department to recruit in-kind donations, which now secures \$7 million in supplies and services annually. The in-kind department locates free auto parts for the moving company, silverware and dishes for the café, movie equipment for the viewing room—even professional advice about construction of the housing complex.
- **Nurture warm community relations.** Community members generally embrace Delancey Street's work in principle, but not everyone wants the organization located in their back yard. Delancey Street managers try to turn opponents into supporters by being both responsive and responsible. When the organization launches a venture in a new community, it sends a cross-section of workers to the new site to put a human face on the

enterprise. “We send a slice of the pie that represents what we think it takes to build a Delancey Street—someone who can hustle, someone who knows accounting, someone who can write, some maintenance people, et cetera,” Muller says. As a result, neighbors’ fears that Delancey Street would reduce their property values and increase local crime have been proved wrong.

- **Resist overexpansion.** Two factors make it difficult to expand a venture like Delancey Street beyond a certain size: The philosophy of continuous learning that is embedded in the business structure, and the focus on intense personal attention. At any given time, at least one-third of all employees in Delancey Street businesses are new, either because they’ve recently joined the organization or are rotating in from other jobs. The rotation process offers unparalleled learning opportunities, but it isn’t efficient to transfer workers who have risen to management positions at one job into another where they must start from the bottom. The constant retraining limits the businesses’ ability to grow quickly. Moreover, the close attention that the organization pays to each resident and worker limits its potential to expand indefinitely. As Delancey Street’s resident population approached 500, operations became more unwieldy, peer support suffered, and it was harder to keep track of residents.

### *Discussion Questions*

1. What is the mission of Delancey Street?
2. How do the social purpose businesses fit with that mission?
3. What are some of the issues that managers of the social purpose businesses face, given the rotation of staff, the jobs’ low skill requirements, and the high labor intensity?
4. Delancey has been very successful in finding synergy across several social purpose businesses. What other business opportunities might be compatible with these current business lines? How are they related? Do they fit Delancey’s criteria, such as low skills and high labor intensity?



The Fifth Avenue Committee of Park Slope, New York, created and operates Brooklyn Workforce Innovations, an organization that offers job training programs for low-income residents, and FirstSource Staffing, a temporary staffing agency that provides job training, counseling, and placements for hard-to-employ people.

## **More Than a Temporary Change: The Fifth Avenue Committee and FirstSource Staffing**

### ***Highlights***

The Fifth Avenue Committee (FAC) was established as a block association in Park Slope, a low-income area of southern Brooklyn, in the late 1970s at the beginning of that neighborhood's gentrification process. FAC created and operates Brooklyn Workforce Innovations, an organization that offers job training programs for low-income residents, and FirstSource Staffing, a temporary staffing agency that provides job training, counseling, and placements for hard-to-employ people.

FirstSource Staffing features:

- An aggressive marketing strategy that makes the social mission a selling point;
- A top manager with expertise in the industry;
- An equal commitment to financial profit and employees' personal success; and
- Below-market fees, which keep the business competitive in a tight market.

### ***History and Context***

Through community organizing efforts, FAC quickly grew from a fledgling block association into a strong neighborhood improvement association. It brought in the area's first major supermarket, Key Foods, and helped develop dozens of units of affordable housing. By the mid-1990s, Park Slope had become a thriving area of renovated townhouses, trendy boutiques, and storefront restaurants interspersed with tenements. With the economy booming and property values making housing development more expensive, FAC leaders began to think about starting for-profit businesses, owned and managed by the organization, to create new employment opportunities for local residents.

Their first venture was Ecomat, an environmentally friendly dry cleaning business. Ecomat closed within five years, however, because it was expensive to operate and failed to create a sufficient number of new jobs. Moreover, the company that operated the business from which FAC purchased the franchise also went bankrupt. A second venture, FirstSource Staffing, opened in 1999 as a community-based temporary employment service.

FAC selected the temp business for its social venture after consulting with The ICA Group, a Boston-based nonprofit that specializes in social purpose businesses, providing initial backing for the businesses and then gradually converting them to worker ownership through employee stockholder plans. FAC settled on the temp business for four reasons:

- There was strong client demand for the service.
- Low startup and overhead costs made it a less difficult venture than a retail shop.

- ICA had direct experience in the temp industry, having launched similar projects in Boston and Washington, DC.
- Opening an employment agency furthered FAC's community assistance mission by creating employment opportunities for local residents.

ICA helped FAC connect with 10 funding sources, most of which were unknown to the nonprofit organization. The result was \$600,000 in grants and loans—enough capitalization to launch FirstSource with zero investment from the Fifth Avenue Committee. FAC also followed its consultant's advice to create a business plan for FirstSource that included pricing, marketing, job training, and performance goals.

### ***Business Strategy and Structure***

FirstSource focuses on training and placing hard-to-employ people—such as John S., an ex-offender with 10 children who now earns \$11 an hour as a factory worker, and Lovey A., who has left public assistance because FirstSource taught her office skills and placed her in a \$15-per-hour job at a law firm. FirstSource can place such candidates because it gives them a level of training and support not available at conventional staffing agencies. Through its nonprofit parent organization, FirstSource offers vocational screening, guidance counseling, psychotherapy, training in soft skills, and English as a second language. This preparation significantly lowers the hiring risk to employers.

By opening a temporary staffing agency, FAC and Brooklyn Workforce Innovations were entering a highly competitive market. According to the New York Association of Temporary and Staffing Services, the temp industry is the state's largest employer, with an annual payroll of \$2.25 billion and average daily employment of approximately 120,000 individuals, most from the greater New York City area.

Aaron Shiffman, executive director of Brooklyn Workforce Innovations, and his partners determined that FirstSource would need a market share of 0.3 percent to 0.5 percent. To meet that goal, the new agency needed to create a niche. "We knew we couldn't compete in every sector, so we decided to focus on administrative work, light industrial, and clerical," Shiffman explains. "These were the areas where we believed there was a demand that we could meet."

Almost immediately, the new company wrestled with problems of perception. As a for-profit enterprise operated by a not-for-profit organization, FirstSource risked being confused with welfare-to-work programs. Yet there were crucial differences, as Shiffman notes: "No one is mandated to come here. We are a business. Our temps are more job-ready. Not all of them are coming off public assistance; some are very experienced people whose unemployment benefits are running out."

During its first three years, FirstSource had modest success placing people in jobs but its client base wasn't expanding. FirstSource managers' marketing strategy was to distance the company

from its social mission, fearing that potential corporate clients would not see the agency as a commercial peer. Neither the agency's brochures nor its sales pitch mentioned the social purpose nature of the business.

But in 2002, when temp agency veteran Isaac Schild became president and CEO of FirstSource, the agency shifted strategies. Schild believes that a social mission can give a business a competitive edge. "The perception out there is that most staffing agencies are interchangeable," says Schild. "This is what sets us apart: Not only do we provide great service, but the money goes back into the community." Schild revised all of FirstSource's promotional materials and, within six months, had transformed FirstSource into a full-service staffing agency capable of serving major corporations. "Any business can have a mission and be successful," he says, "if it's positioned right in the marketplace." He emphasizes that the venture is a business, not a charity. In a competitive market, FirstSource can expand its client base and generate repeat business only by offering superior service.

### ***Operations***

Although FirstSource focuses primarily on supplying major corporations and white-glove law firms, it lavishes equal care on smaller clients such as the Trim Corporation of America, a Brooklyn-based display manufacturer. Company executives say they weren't even aware of the agency's social mission when they used FirstSource to hire 35 people. "The bulk of our business is seasonal, so we have a tremendous need for temporary blue-collar help," says Stanley Pawigan, the Trim Corporation's comptroller. "We went to FirstSource because they were convenient and reasonably priced. They found us many reliable workers quickly, so this year we're going back for more."

FirstSource places as much emphasis on employee welfare as it does on pleasing clients. For a typical temporary agency, "temp-to-perm" arrangements are bad for business; the agency loses valuable temp staff for future placements and an income-generating placement with a client. But FirstSource encourages employers to move their temps into permanent jobs "because we are ultimately trying to find jobs for people, not just perpetuate the temp agency," Shiffman says.

FirstSource's pricing structure reflects its social purpose roots. When employers use a staffing agency to hire temporary help, they pay a fee based on a percentage of the worker's salary, known as the gross margin. Nationally, the average gross margin for temp firms is 26 percent. In New York City, it averages from 32 percent to 35 percent. But FirstSource targets a far lower gross margin of 28 percent to 30 percent in an effort to place a greater number of community residents in jobs.

Management has been a major operational issue for FirstSource. The agency's first general manager had many years of experience, but only in nonprofit management. He successfully launched the enterprise but lacked the business contacts needed to expand it. A second manager, who had for-profit experience, lasted only three months.



Just as FirstSource was struggling to find the right leader, the high-tech industry faltered and the events of September 11, 2001, took their toll. New York City was no longer a seller's job market, and FirstSource needed a leader with enough industry savvy to navigate the rough waters. FAC paid an executive search firm \$13,000 to find Schild, who had not only run a for-profit temp agency but also had experience with business expansion.

With a professional staff in place, Shiffman had to address the temp employees' compensation structure. Temp agency recruiters—the sales and marketing staff—typically receive a base salary plus bonuses and incentives. The result is that a good salesperson can make more money than his or her boss. Shiffman is philosophical about that: “You get what you pay for.”

### ***Outcomes***

According to national surveys, the recession that began in 2001 hit New York City harder than any other U.S. city. And the staffing industry absorbed the worst blows of any sector of the economy. Yet while other employment agencies were closing their doors in the first half of 2002, FirstSource Staffing was expanding its staff, its client roster, and its accomplishments.

By 2002, all the structures necessary for a self-sustaining business were in place. FirstSource had a professional management team to oversee the company, a marketing strategy, and partnerships with organizations that could refer a steady stream of job-ready workers to the business or provide training to upgrade workers' skills. FirstSource had placed 228 employees in jobs paying an average wage of \$11 an hour. About 10 temp workers were being placed in permanent positions every month, for a total of 65 permanent placements—more than three times the agency's original goal. And FirstSource had diversified its original client portfolio of small businesses and nonprofits to include universities, large law firms, and major financial institutions.

### ***Looking Ahead***

FirstSource was not the Fifth Avenue Committee's first foray into social purpose ventures, but it may turn out to be the most promising. It directly supports the mission of increasing employment, is not capital intensive, and is easily expandable. With the right management team in place, effective marketing, and a cooperative economy, FirstSource is positioned to take off. Next steps include:

- **Strengthening the Board of Directors.** Shiffman wants to expand the Fifth Avenue Committee board's roster of community activists to include directors with financial expertise and corporate contacts. “There are a lot of intricacies related to pricing, compensation, and collections that only someone with [business] experience can offer guidance on,” he notes. “We need a retired CFO and experienced retired temp industry executives on our board.”
- **Improving training.** With a grant from the Surdna Foundation, FirstSource has implemented several programs, including pre-employment job training, troubleshooting when problems arise on the job, childcare and domestic violence counseling. “By helping

job candidates we also help ourselves, by heading off problems that could affect productivity before they reach the workplace,” Shiffman says.

- **Getting to scale.** With the new management team in place, FirstSource aims to expand its business with existing customers and go after bigger placements with each client, to take advantage of economies of scale. One possible sector is litigation support, which has a continuous need for temporary staff.

### *Lessons for Success*

- **Know your industry, and pick the right niche within it.** When Brooklyn Workforce Innovations’ Aaron Shiffman and FAC first began thinking about a nonprofit venture, the franchise model was attractive because it came with employee training and, they assumed, a built-in marketing advantage. But after committing to the Ecomat franchise, FAC discovered that only eight workers could be employed at one time, and the skills they learned were not easily transferred to other jobs. The hoped-for savings in marketing costs were absorbed by high operating and maintenance expenses. Then the franchise company itself declared bankruptcy. Shiffman, determined to try again but not with a high-risk startup company, insisted on extensive research to ensure the next enterprise was better suited to FAC’s purposes. He and his colleagues analyzed the industry’s dynamics from all angles. Their advice now is:
  - Familiarize yourself with the market. How big is it? Who will your customers be? Who’s your competition? What percentage of the market share will you need to seize in order to meet your goals? Which sector of the market can you successfully compete in?
  - Get guidance in the early stages from other organizations with industry experience.
  - Identify organizations that could provide your company with important resources, such as training or even potential employees.
  - Think through the type of structure you want your business to have. Would you like a management team composed of industry professionals, or professionals from the nonprofit world, or both?
- **Have the right management in place before you open your doors.** Businesses, unlike some nonprofit organizations, can’t “wing it.” If they can’t generate income, they can’t meet their payrolls, grow, or take advantage of new opportunities in the marketplace. And the pace of work in the for-profit sector is fast; managers must be nimble and decisive. FAC neglected to ask the all-important question of *who* should oversee the process until a year and a half after FirstSource opened. It took three tries before the company had someone in place who, as Shiffman declared, would “manage the company like a business rather than a program.” Shiffman now says that senior managers and Boards of Directors must have expertise in the relevant industry and a strong background in accounts receivable.

- **Hire experienced staff.** “We are the only staffing agency in the city in which all the recruiters came from other agencies,” says Schild. “You have to have people on board with a track record that resonates with prospective clients.”
- **Find the right marketing strategy.** “The right wording of your materials is important,” says Schild. He advises social purpose businesses to emphasize superior product first, then offer partnering with the community as a bonus.
- **Find the right partners.** Partners have been a valuable source of expertise, information, and guidance for FAC and FirstSource. The alliance with Boston’s ICA Group provided industry expertise and strong connections to sources of financing. Good Shepherd Services, a Brooklyn-based social service and youth development agency, provided the initial employee pool with graduates of its secretarial training program. Other community-based organizations have supplied job-ready workers and/or training to upgrade workers’ skills.
- **Set your sights high.** Before Schild came on board, FirstSource wasn’t targeting any large companies because those accounts can take a year’s worth of time and effort to attract. But the big contracts are key to long-term stability. “The beauty is that once you’re there, you are usually kept on unless you screw up,” Schild observes. He recommends a combination of large and small contracts to achieve quick income along with sustainability.
- **Be willing to say no.** At first, FirstSource leaders were reluctant to turn away any business, even if the client wasn’t a good fit. Now they’re more strategic. If a client’s order is inappropriate for FirstSource, they refer it to a competing agency. This is a good practice for two reasons: The employer appreciates the referral, and the competitor may reciprocate with future referrals to FirstSource.

***Discussion Questions***

1. Why was FirstSource able to expand its business during the economic downturn?
2. FirstSource struggled to decide whether to market the business' social purpose or to sell the service as typical temp staffing. In marketing a social purpose business, what are the advantages to selling the mission as well as the business? What are the disadvantages? Think about this from the point of view of the nonprofit organization as well as the business clients.
3. How could FirstSource have avoided the initial management problems that it faced?
4. FirstSource prices its services below the standard market rate. Leaders claim this practice will enable them to place a greater number of community residents. Do you think FirstSource could command a market rate for its services? Why or why not?
5. Should social purpose businesses always compete by offering low-cost products and services? How do pricing decisions affect the image of a product or service?



The Latin American Youth Center's Ben & Jerry's Partner-Shop funds the YouthBuild program and dozens of other enormously popular programs for an audience of 5,000. The vast array of program-ming includes social services, crisis intervention, foster care, counseling, job training, and GED programs.



## PART THREE: Expansion

### Sweet Success: The Latin American Youth Center's Ben & Jerry's PartnerShop

#### *Overview*

The nonprofit Latin American Youth Center (LAYC) supports youth and families by providing social supports and opportunities in education and employment through advocacy and social enterprise. This \$7 million dollar organization sponsors a vast array of programming including social services, crisis intervention, foster care, counseling, job training, a YouthBuild program, two charter schools, GED programs, and more. Its "Creative Enterprises" division develops business ventures that introduce youth to entrepreneurial principles. These include:

- The Ben & Jerry's PartnerShop;
- The Art and Media House, a state of the art facility for art and media production. Earned income ventures include rental of gallery, studio and darkroom space, sale of youth artwork and art classes;
- IMPACTO Consulting, a consulting enterprise that assists a variety of nonprofit and government clients in their work to engage and integrate Latino and immigrant youth and families.

#### *History and Context*

Founded in 1974 to serve at-risk immigrant Latino youth, LAYC is devoted to supporting youth and families in their efforts to create better lives while counteracting the effects of poverty and racism. Today, LAYC is a vibrant youth and family development center with a \$7 million budget located in Columbia Heights, the heart of Washington, DC's Latino community, and an audience of 5,000 people of diverse ethnicity. Mosaics dot the walls, colorful murals brighten hallways, and conference rooms' terra cotta floors are studded with tiles and painted Mexican chairs; the office is alive with excitement, energy, and innovation. Fifteen years ago, LAYC's executive director, Lori Kaplan, could only imagine incorporating a youth-serving business venture into her young organization.

Today the organization has well over 30 programs including initiatives in academics, health education, job training, social services, leadership development, substance abuse prevention, housing, arts, humanities, and recreation. All of these programs are used to foster the positive development of youth and families in the Washington, DC, area.

The agency's most popular program, serving 400 youth, is "The Teen Center Program," which provides recreational activities for teens after school and on weekends. The staff organizes tournaments, sports leagues, and off-site trips. "The Teen Center Program" is the main entry point for youth to become involved in the agency's wide variety of programs. The youth are exposed to activities designed to help them stay out of trouble, perform well in

school and improve their self-esteem.

In addition to the programs designed for youth, are those targeted toward the entire family unit such as “Family to Family.” This program helps low-income families decrease dependency on welfare through job placement assistance, budget management, and computer literacy classes. LAYC also provides counseling, crisis intervention, housing assistance, foster care, health education and job training to families and youth.

LAYC opened its first PartnerShop on January 1, 2002, in Eastern Market on Capitol Hill. It has faced many hurdles: the aftermath of September 11, 2001, the anthrax scare, the DC sniper rampage, and 48 days of rain in its first selling season.

### ***How It Started***

In 1999, Lori Kaplan was approached by Ben & Jerry’s to start a PartnerShop in Washington, DC. At this time, Ben & Jerry’s was looking for entrepreneurial, youth-focused organizations that fit with its social mission, and among local contacts, LAYC had emerged as a prime candidate. The organization was well respected within the nonprofit sector for running innovative youth programming and had the resources and connections necessary for success running a PartnerShop. It also had dabbled in some prior social enterprise activity, and Kaplan saw social enterprise as a natural extension of LAYC’s arts- and youth-based programming.

### ***Board Readiness***

LAYC’s Board of Directors was enthusiastic about the PartnerShop and confident that the socially conscious philosophy of Ben & Jerry’s meshed well with LAYC’s mission. The Directors were excited to bring a first-rate product and job opportunities to local youth, complementing their existing array of services. For many youth involved in LAYC’s and other training programs in the Washington, DC, area, the supportive work opportunity presented by the PartnerShop had been lacking.

Although there was general excitement among the Board, the project did face some resistance. One Board member raised strong concerns regarding risk factors. His concerns, however, inspired the remaining Board members to crystallize their reasons for wanting to move forward with the venture. They strengthened their case by articulating three key reasons to undertake the development of the PartnerShop:

- The Ben & Jerry’s PartnerShop was **related to LAYC’s mission** to counteract the effects of poverty and racism by fostering job creation for youth.
- The PartnerShop would help **raise LAYC’s visibility** in the nonprofit sector locally and nationally as an innovative and cutting-edge agency.
- The PartnerShop could **make money for LAYC**. LAYC understood that profits generated would be minimal; however, the goal to achieve a profit was central to the Board’s decision to undertake the venture.

LAYC’s Board actively evaluated the PartnerShop idea from the beginning. With little

experience in the retail or food-service sector, LAYC sought to diversify its Board, reaching out to new people with expertise in these areas. One key addition was the former owner of the Ben & Jerry's franchise LAYC was taking over. The Board also recognized early on that it needed a governance structure for its expanding social enterprise efforts. With this in mind, Kaplan created the Creative Enterprises Committee, a sub-committee of the Board charged with developing and overseeing LAYC's social ventures, including the PartnerShop and a new Art House venture.

### ***Business Structure and Financing***

Kaplan realized that she needed more staff resources dedicated to the development of social ventures. A new staff hire, Jennifer Shewmake, became the Director of Creative Enterprises and was instrumental in planning for the PartnerShop. With a new business plan in hand, written by Shewmake and the newly formed Committee on Creative Enterprises, LAYC developed a strategy for financing the startup of the PartnerShop, including the purchase of an existing Ben & Jerry's shop on Capitol Hill. They were successful, raising a total of \$250,000. The single largest expense was the \$190,000 purchase of the existing Eastern Market shop; the balance was held in a reserve fund for startup costs, including minor refurbishments of the space.

The financing was raised through several sources. \$175,000 was generated from program related investments (PRI) from The Moriah Fund and The Cohen Foundation at an interest rate of one percent over seven years. The remainder included a recoverable grant from the Local Initiatives Support Corporation (LISC), grant money from the Fannie Mae and Cafritz Foundations, and gifts from individual LAYC donors.

In addition, LAYC created a new 501(c)3 corporation with a separate Board (with some member overlap from the parent Board) to oversee the new shop. With these financial and legal structures established and the shop purchased, LAYC planned to launch the business in January 2002.

### ***Operations: Human Resources***

Concurrent with Board discussions with Ben & Jerry's, LAYC began talking to area youth about what they wanted from new programs. They polled youth from Columbia Heights and conducted focus groups to determine their interests. Most were excited about ice cream and the prospect of having a job, though they were not familiar with the Ben & Jerry's brand.

LAYC understood that the Ben & Jerry's relationship was special, and that the organization was fortunate to have this association. To share LAYC's good fortune and broaden the impact of the PartnerShop, Kaplan and the Board decided to open the hiring process to other youth development agencies in Washington, DC. An open selection system was devised to choose the youth employees.



Under the direction of Megan McJennett, LAYC's youth training manager, LAYC piloted a job application process spanning four local agencies in addition to LAYC: Boys & Girls Club, Friendship House, Arch Training Center, and Covenant House. The largest percentage of applications continued to be generated by LAYC.

In the PartnerShop's first year, 78 area youth applied for 30 slots. In the second year, the number of applicants for the 30 jobs grew to 125. During this process LAYC learned first-hand how long it takes to recruit, interview and train retail employees. To ensure a fully staffed shop at the height of summer, LAYC starts its recruitment process in February and makes hiring decisions by March. In September, as ice cream season begins to wane, some Scoop Shop employees are transitioned to higher-paying jobs or educational opportunities while others remain at the shop to receive training that will allow them to take on higher levels of responsibility the following year.

There are many paths to professional and personal growth for PartnerShop participants. The pre-training program consists of 10 hours of training outside of the shop. Based on a participant's performance in the pre-training program and work performance on the job, employees can receive small merit increases and other incentives. LAYC also offers positions as Peer Trainers and Shift Leads for young people who show leadership ability and a willingness to take initiative. These positions allow youth to move up in the PartnerShop, gaining job and life skills even if they are not yet prepared to leave the supportive work environment.

#### ***Operations: External Risks and Operational Challenges***

The first year and a half of the PartnerShop was filled with challenges. In spite of the success of the youth employees, a solid training program, the efforts of LAYC's staff, and a strong Board of Directors, operations in the first year were difficult. First, the PartnerShop was only able to employ a select number of area youth, turning away many unhappy applicants. The shop lost \$15,000 in its first year due to a higher than planned cost of goods sold. This problem was traced back to theft and overscooping. Management was being pulled in many directions. The difficulty of providing

#### **A Sweet Deal**

Ayesha Harris, 22, and Janice White, 19, are cousins living in southeast Washington, DC. Both are youth scoopers at the PartnerShop. They had previously worked summers at fast-food chains, but they had never received the meaningful training and attention of the PartnerShop. While they admit the pay is not great—both are surviving on the minimum wage, one a young mother—they appreciate the Partner-Shop approach: They wear what they want, the trainers are kind, the atmosphere diverse, the hours flexible, and they work with kids of all ages.

Both are able to talk about the high cost of goods sold and the danger of overscooping ice cream, both of which can have a serious impact on monthly revenues. They understand that labor costs represent the shop's highest expense. And they can articulate how they have benefited from the program personally and professionally. Both have developed the confidence and poise to dream about the future. Ayesha plans to start a nonprofit devoted to women's economic development or become a nurse's assistant, and Janice is exploring beauty school so that she can open her own hair salon.

The PartnerShop is a lifeline for all the youth scoopers, providing a chance to cultivate skills and harness previously undiscovered potential.

high-quality job training and professional development to the staff often left little time for business management aspects of the PartnerShop.

Although external risk factors were considered during the business planning process, the staff and Board could not imagine just how many risk factors were possible, nor accurately project their likelihood of occurring. Rain fell on 48 days in a season composed of only 100 prime selling days. This problem was compounded by a downturn in the economy and the DC sniper rampage, which kept people indoors for days on end.

Unable to change the myriad external factors out of their control, PartnerShop staff looked to add discipline to internal operations in the second year. By year two the PartnerShop had retrained the youth on scooping, so that scoopers could eyeball correct cone and cup sizes. To counter theft, each employee now receives free ice cream coupons to give to friends. McJennett now also divides duties in the shop with a professional business manager: One person is responsible for the professional development of the workers, and the other manages day-to-day operations. Jennifer Shewmake oversees both positions and works to mesh the operations with the training. Finally, the training program is offered on a rotating basis—there is always a core of trained scoopers on hand, increasing the level of professionalism in the shop.

The PartnerShop plans to end its second year in the black, helped in part by the fact that the shop had previously existed at the site for five years. In addition, the shop has begun to market and sell other products, such as cakes, and has successfully reduced its cost of goods sold. McJennett and Shewmake's salaries are currently covered by the LAYC budget, while those of the youth scoopers and the professional business manager are covered by PartnerShop operations.

### ***Outcomes***

PartnerShop youth scoopers are enrolled in the program for eight to nine months, with the goal of building a job history and learning life skills including professionalism, punctuality, and customer service. At the outset of the program, LAYC establishes personal goals with each scooper, with educational attainment and job placement central to the long-term outcome. LAYC monitors the progress of the youth and the overall program using its standard evaluation system. At the conclusion of the program, youth are transitioned to other jobs or encouraged to stay on with increased responsibility and pay.

Most youth come to the program with personal challenges and hardships. Typically the youth range in age from 14 to 24 and have faced barriers to employment: a history of crime or substance abuse, a lack of a high school diploma or GED, inability to hold a job, or no previous employment history. In spite of these challenges, some have developed a special interest in small business, the kernel of the entrepreneurial spirit.

In addition to the participant outcomes, LAYC has achieved some exciting organizational

outcomes. The training curriculum LAYC developed is being adopted by the national PartnerShop network. And running the PartnerShop has significantly increased LAYC's experience opening and implementing a social venture—experiences that will transfer to future ventures.

### ***A Second PartnerShop***

With so many youth clamoring to work at the PartnerShop, LAYC began to explore the development of a second shop in early 2003. LAYC had learned so many lessons through the first shop that the possibility of serving double the number of youth and saving on economies of scale made the prospect of a second shop too tempting to resist. In late 2003 LAYC opened the second PartnerShop in the upscale neighborhood of Chevy Chase, Maryland. It is located in a neighborhood interested in social causes and endowed with financial resources. To open the second shop, LAYC received an \$80,000 loan from a DC-based family foundation, \$70,000 in grants, and a \$100,000 program related investment from the Genesis Group.

In addition to providing job opportunities for young people, LAYC plans to use the second shop as a venue for marketing the LAYC overall organization, experimenting with ways to pull customers into the LAYC as new funders, stakeholders and volunteers. While Ben & Jerry's PartnerShops have to adhere to corporate marketing campaigns and must have proper signage and approved design, they are also free to market the nonprofit host agency.

### ***More Venture Opportunities***

LAYC has received inquiries regarding a third PartnerShop in a new shopping center development steps from their headquarters. However, management will wait before opening a third shop, given that the first shops are still in their early years. Since opening the PartnerShops, LAYC has also opened a new Art House where emerging artists, including youth artists, can sell art. Earned income activities include art classes, gallery space, studio space, and darkroom space rentals, and sale of youth artwork. Art House was an outgrowth of an idea from the youth and staff and conjoins the LAYC artistic emphasis and entrepreneurial approach.

### ***Lessons for Success***

- **Identify the reasons for starting a social venture.** The PartnerShop has opened up new opportunities for LAYC, increasing its visibility and national stature. But if making money had been the primary reason to launch the venture, the PartnerShop would not have been the best money-making choice.
- **Structure your organization to support new ventures.** LAYC created a winning structure to manage the PartnerShops and its social ventures. This included hiring a Director of Creative Enterprises, establishing a Board Committee on Creative Enterprises, and recruiting new Board members to fill gaps in expertise. Executive Director Kaplan also hired a full-time training manager to oversee the mission-driven

elements of the venture, with day-to-day business operational duties taken on by a business manager who was not responsible for social outcomes.

- **Conduct marketing research.** The decision to open a PartnerShop followed LAYC's survey of local youth, which determined that the respondents wanted meaningful jobs.
- **Understand external risk factors and mitigate the risk.** LAYC might have identified more external risk factors during the business planning process—including rain—and thought through a response strategy.
- **Risk taking on debt.** LAYC took on debt to finance both of the PartnerShops, which has allowed the organization to grow substantially.
- **Get good legal advice early on.** LAYC benefited from top-notch pro bono legal advice, giving Kaplan and the Board confidence in developing the new franchises under a separate corporation.
- **Don't become a victim of your own success.** LAYC has been courted to open a third PartnerShop, but wants to turn attention to different ventures that address other aspects of their mission. While the program model has been successful and LAYC has received national recognition from Ben & Jerry's, it plans to concentrate on making its two shops profitable before taking on a third.

### *Discussion Questions*

1. Which of LAYC's priorities does the PartnerShop business model meet? How is it aligned with the mission? Is there any way in which the PartnerShop does not meet the needs of the LAYC? What was the strongest reason for opening the PartnerShop?
2. What is the role of debt financing in a new venture? When is it a good idea? Are there instances where taking on debt would not be a good idea?
3. What role does human resource management play in establishing a new venture? What actions did Lori Kaplan take throughout the case to address the human resources needs of the organization?
4. What is the primary reason to establish a separate 501(c)3 corporation for an earned income venture? Is this always necessary? What are the pros and cons of establishing a separate entity?
5. What would be the likely outcome of opening a third PartnerShop? What are the pros and cons of opening a third shop?
6. Besides opening a second PartnerShop, what could LAYC have done to create jobs for area youth and keep PartnerShop costs down?
7. Do you think the second PartnerShop will be successful as a marketing venue for LAYC? What can LAYC do implement their ideas?
8. Have the PartnerShops been successful for LAYC? How is success defined?



The Food Project annually grows over 250,000 pounds of food on two Boston-area farms. The organization currently employs 100 young people, 25 staff, and 2,000 volunteers.



## **Organically Grown: Social Ventures at The Food Project**

### ***Overview***

The Food Project (TFP), based in Boston, Massachusetts, is a 14-year-old grassroots youth organization that employs and trains youth to radically change the food production and distribution system in America. TFP grows 250,000 pounds of food on its 31-acre farm in Lincoln, Massachusetts—a wealthy suburb outside Boston—and on 2.5 acres in Boston. Employing over 100 young people, 25 full-time staff and 2,000 volunteers, TFP runs several food-related social enterprises including:

- Community-supported agriculture
- Farmer's markets
- Fresh Salsa
- Catering and prepared foods

TFP is currently expanding nationally and internationally and is contemplating the challenges associated with this expansion.

### ***History and Context***

In 1991, TFP's founder, Ward Cheney, had a vision of young people from the city and the suburbs working side by side on the land, producing food for the hungry and learning together. He imagined youth experiencing the value of labor and service while building a diverse and effective community. He pictured a place where youth could discover and develop their talents, make friends and test themselves physically, mentally and emotionally. His vision became TFP. Cheney, a resident of one of Boston's wealthiest suburbs, drew on his experience as a farmer, organizer, educator, and activist. One of Cheney's first hires was an intern steeped in local politics and grassroots organizing, Pat Gray, now the organization's executive director.

TFP launched its first growing season in 1992 as a self-funded pilot project of the Massachusetts Audubon Society. With a budget of \$100,000, three staff members and 18 youth working on 2.5 acres of land at Drumlin Farm in Lincoln, it grew and donated 4,000 pounds of food its first summer.

After three years as an Audubon pilot at Drumlin Farm, TFP leased four, then eight, then 21 acres of land from Lincoln's Conservation Commission. In fall 2002, they leased an additional 10 acres near the existing farm.

In 1995, Food Project youth partnered with residents of Boston's Roxbury neighborhood to clear a vacant half-acre lot—home to abandoned cars, old appliances, construction debris, trash, and litter—on Langdon Street, and prepare the land for its first growing season in 1996.

In 1998, youth and community members cleared a two-acre site several blocks from the first. Again, TFP joined with neighbors to make the land productive. After adding tons of compost and contributing countless hours of clean-up, the West Cottage Street lot was born.

Today TFP has a \$2 million dollar budget and a 31-acre farm in Lincoln plus three city farm lots totaling 2.5 acres in Boston. Employing over 100 young people and 25 full-time staff, TFP also engages nearly 2,000 volunteers annually. With offices both in Lincoln, Massachusetts and in Boston's Roxbury/Dorchester neighborhood, it grows over 250,000 pounds of chemical-pesticide-free food each season for charitable donation, subsidized sale at farmers' markets, and youth-driven food enterprises.

Pat Gray, TFP's passionate and focused leader, started out as that first intern in 1992, continued with the organization first assisting with the creation of the organization, then managing its volunteer program, organizational communication and outreach, program recruitment and logistics. In 1995 she became Co-Director and in 2000, Executive Director.

### ***Business Strategy and Structure***

All of The Food Project's social ventures are housed within their nonprofit 501(c)3 structure. TFP is structured as a national model of engaging young people in personal and social change through sustainable agriculture. At its core is the deep focus of identifying and transforming a new generation of leaders by placing teens in unusually responsible roles, with deeply meaningful work. TFP has three main areas of focus: production and sale of food, youth development, public education and expansion. The core business strategies and structures are built around these three areas.

Increasingly, The Food Project serves as a resource center for organizations and individuals worldwide: It provides unique capacity building for organizations and educators who learn from the organization's expertise through curricular materials, youth training, and professional development opportunities.

### ***Production and Sale of Food***

Each season, TFP grows nearly a quarter-million pounds of food free of chemical pesticides and donates half to local shelters. The other half is sold through Community Supported Agriculture (CSA), two farmer's markets—one subsidized and one full-price—and the Harvest Bags program, which gives office workers downtown the opportunity to sign up for produce bags that are delivered twice a week to their offices. In addition, in its Urban Kitchen in Dorchester, TFP produces and sells a branded salsa and holiday pies and has established a catering business. Approximately 40 percent of the produce grown goes to shelters and the subsidized farmer's market, while 60 percent goes to the full-price farmer's market and other venture activities.

## **1. Community Supported Agriculture (CSA)**

A CSA is a partnership between a farm and a community of supporters that provides a direct link between the production and consumption of food. Members cover a farm's yearly operating budget by purchasing a share of the season's harvest and helping to pay for seeds, fertilizer, water, equipment maintenance, and labor. In return, the farm provides a supply of fresh produce throughout the growing season.<sup>5</sup>

TFP's CSA, its first social venture, is on its farmland in Lincoln. It is now self-sustaining: Low distribution and operating costs make it economical to operate. The CSA offers four different share options. The price of shares ranges from \$100 to \$600 each, depending on the season and type of benefit received; there are currently 258 members in the summer and 70 members in the winter.

TFP's CSA took five years of operation to become sustainable, and now requires no external fundraising. As a stable source of revenue, the CSA has allowed TFP to expand its other entrepreneurial activities. In 2002, the CSA accounted for as much as 49 percent of TFP's distribution of produce—up from 17 percent in 1999.

## **2. Farmer's Markets**

The Food Project's subsidized Farmer's Market is an ongoing venture making fresh, affordable, organic food available to residents of Dorchester, one of Boston's poorest neighborhoods. In 2003, TFP started a second market downtown at the Boston Children's Museum, targeting it to higher-income consumers able to pay market prices for organic produce, to subsidize the Dorchester site.

The two markets, which operate twice a week during the growing season, employ paid youth interns to sell produce. The youth sell up to 25 different varieties of vegetables while developing math, customer service, and product display skills. Nearly half of the Dorchester market sales are from consumers who pay with government subsidized food coupons including Food Stamps and WIC (Women Infants and Children) coupons.

With annual expenses of \$68,000, including stipends for the youth participants, cost of food, and internal transfers of food (valued at \$1 a pound), the Farmer's Market is a financial drain on TFP. However, Pat Gray believes this program critical to the mission of the organization—providing fresh food to communities where access is lacking and providing youth with work opportunities—and raises the agency's profile in the neighborhood. The long-term goal is to generate enough revenue to subsidize the low-

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<sup>5</sup> *What is Community Supported Agriculture and How Does It Work?*, University of Massachusetts, [www.umass.edu/umext/csa/about.html](http://www.umass.edu/umext/csa/about.html)



income Farmer's Market. Adding the downtown Farmer's Market is one of the strategies to achieve this goal.

Another is the Harvest Bag, a creative product that merges the CSA and Farmer's Market programs. For a fee of \$13 per bag (\$9 per bag for a smaller one), downtown workers have Harvest Bags filled with produce, recipes, and information on TFP delivered to their offices once a week. Customers are encouraged to pay in advance, as they would in a CSA. Four downtown companies have signed up for the service, and a new marketing campaign is under way to recruit more. There are also plans to sell holiday pies and potentially other seasonal foods directly to the office workers in their places of business.

### **3. Urban Kitchen**

TFP's Dorchester storefront office is located in a former Cape Verdean restaurant; it seemed to make sense to use the kitchen to train youth interns in the culinary arts. Management decided to launch a catering venture and a fresh salsa venture, both of which required that the kitchen be licensed as a commercial facility. This resulted in a \$100,000 investment to bring the kitchen up to code. While the kitchen is small—ultimately, more storage space is necessary to operate at the scale necessary for financial self-sufficiency—it is big enough to pilot two new ventures: a catering service and "Fresh Salsa."

**Catering.** In summer 2002, TFP launched a lunch take-out service in Dorchester. With a limited menu of gourmet salads and sandwiches, TFP offered healthy choices to a neighborhood with limited lunch options. As part of a seven-week culinary arts training program, youth who had earned the right to cook for catering customers spent mornings filling orders under the direction of a professional chef.

The menu was mostly a success; fresh lunch options were welcome among a few loyal customers. However, without a formal business plan the service proved difficult to sustain; there were also too few individual customers to make the venture sustainable. In 2003, TFP launched a revamped version of the venture, gearing it toward institutional catering customers such as local nonprofit organizations and churches, hoping to become a niche catering service for an underserved community. Pat Gray will give this venture three to five years to break even.

**Fresh Salsa.** Also piloted in summer 2002 with the help of a team of business students from Boston University was the Fresh Salsa venture. This project had shown promise of becoming a very successful endeavor. Using tomatoes and other produce grown in the organization's own fields, the youth developed a secret recipe, produced, and packaged the salsa in the TFP kitchen. They determined that they could produce 18 units an hour, understanding that their labor and other cost of goods contributed to the overall costs of production. The youth also placed labels on plastic containers and boxed the final product for delivery.

The salsa has taken off and is currently sold in a variety of commercial outlets around greater Boston, including several in the chain of Whole Foods organic grocery stores. During peak selling season in the summer, a driver had to be hired to deliver the salsa. The salsa has been so popular, in fact, that TFP has been overwhelmed by the public response and has struggled to balance its production with other demands on the kitchen. Management is considering outsourcing production and potentially using a supplier's tomatoes to create the salsa; but this might compromise the quality of the product and would remove the youth from the production. Nevertheless, the salsa appears popular enough that TFP may scale up the production.

### ***Youth Development***

The Food Project provides multiple ways for youth to get and stay involved with the organization. Young people who begin as farmhands can move through increasingly involved programs, never "aging out" of their connection with TFP.

**Summer Youth Program.** Each year, a diverse group of sixty youth aged 14 to 16 enter TFP's seven-and-a-half week Summer Youth Program and work to grow and distribute thousands of pounds of organic produce for people in need. Working in crews of eight to 10, and paid a stipend, the youth manage a 31-acre rural farm and over two-and-a-half acres of remediated urban land, sell produce through the two urban farmer's markets and the Community Supported Agriculture program, prepare and serve lunches in local soup kitchens and homeless shelters, and help some of Boston's top chefs prepare community lunches, where neighbors, youth, staff, and visitors come together to share the harvest. Youth also participate in four workshops a week covering issues of diversity awareness, hunger and homelessness, sustainable agriculture, and personal reflection. Many graduates of the Summer Program return during the Academic Year Program as interns, and six to 10 others become assistant crew leaders for the following summer. Students are drawn from both suburban and inner city communities, so in addition to the mission of connecting youth to the land and fostering youth development, TFP also brings together youth across race and gender lines.

**Academic Year Program.** The Academic Year Program, in its eighth year, employs 18 Greater Boston individuals aged 14 to 17 who have completed the Summer Youth Program.

### **Cultivating success**

Jeff Boucher, 19, spent the 2003–2004 school year as a Fellow in The Food Project's Urban Education Outreach Program. He started his career with TFP as a crew worker in summer 1999. He was subsequently involved in a variety of TFP programs including cultivating food, serving in a shelter, educating peers and gardeners about organic food growth, and being heavily involved in the planning and execution of the Urban Agriculture Conference. He also overcame his fear of public speaking, learned to communicate with people from all walks of life, and worked hard to achieve things in life—all skills he will carry with him throughout life.

Jeff lives in the wealthy Boston suburb of Newton. TFP has exposed him to people of different backgrounds with whom he would not likely otherwise have become friends.

He had little interest in agriculture when he first joined the program, but through witnessing the passion and dedication of staff and volunteers for the project's mission he has come to find food growth therapeutic, and plans for it to always be a part of his life.

Members of the D.I.R.T. Crew (“Dynamic, Intelligent, Responsible Teenagers”) dedicate Saturdays and after-school hours to lead over 2,000 volunteers on the rural and urban farm sites, work in shelters, and attend conferences to speak about their experiences with TFP. The Academic Year Program focuses on developing youth’s leadership and public speaking skills as well as enhancing communication skills and deepening agricultural knowledge.

**Alumni Interns.** The Alumni Internship Program has evolved into a cohesive core program for youth aged 15 to 18 who partner with staff and enhance TFP’s mission in nearly all areas of work. The primary objectives of the intern program are to allow youth an opportunity to build upon the knowledge and skills they have acquired in Food Project programs, learn job-readiness and job-specific skills, and engage in meaningful work that contributes to the organization.

Under the mentorship of highly involved adults, interns discover their innate talents, learn the importance of civic engagement, and begin to tackle serious environmental and social issues. Interns work on specific projects with direct supervision from staff members. Treated as employees, interns are expected to meet high standards set forth in an Alumni Internship Manual.

The internship program was developed in response to increasing interest among young people in opportunities to continue their involvement with TFP beyond the Summer and Academic Year programs. Internships were first offered in the summer of 1998. Since then, the program has steadily expanded in size and scope each year.

**Fellowship Program.** The Fellowship program was designed to provide a continuing and substantial involvement in the organization for alumni. Currently, a Food Project Fellowship is a full-time, one-year staff apprenticeship position. Under close supervision, Fellows take on staff responsibilities in one or more areas of the organization. During their fellowship year, they design and conduct a research project.

### ***Operations—Human Resources and Management***

TFP is led by Pat Gray, a dynamic, energetic and humble leader who has worked at every level of the organization since its inception. TFP’s operations are managed by the “Steering Committee,” a group of seven senior staff members including Gray, the business manager, director of development, director of education and training, director of replication, director of agriculture, and associate director. The management works closely with all staff

### **The sweet smell of entrepreneurship**

Wil Bullock, a Fellow with TFP, is relating his experience at the organization to a group of visitors. Wil’s career with TFP began when he was a participant in the summer youth program at the age of 15.

Now 22, and donning a chef’s coat and cap, Wil assists a professional chef in TFP kitchen. On this particular day, in between his thoughts on youth development and the importance of TFP in the lives of young people in the Dorchester neighborhood of Boston, he is making test pies with a small group of local teens for Thanksgiving: two each of sweet potato, apple and pumpkin pie.

The experience of the pie testing—the young people selecting recipes and rolling out dough, the wafting smells infusing the offices of TFP, is emblematic of the entire culture at TFP: entrepreneurial, grassroots, youth-centered.

and the youth involved in TFP. Indeed, a hallmark of TFP's culture is the degree to which staff at all levels of the organization are empowered and have ownership over their work.

### ***Evaluating Success: Outcomes***

With so many ventures and so much entrepreneurial activity taking place, TFP's greatest challenge is to focus on managing the successful ventures and growing them to scale. The organization has developed a matrix to evaluate each of the ventures in light of its organizational and programmatic outcomes. Outcomes are organized into three categories: youth development, food system and multiplier effects. Each venture is measured against this matrix to see if it meets the greater goals for the organization.

1. **Food System Goals.** These goals include building the financial sustainability of the organization, supporting local growers, improving food security (access to healthy food), and educating consumers.
2. **Youth Development Goals.** These goals include training food system advocates, and instilling business and financial skills. Here the goal is to develop "multi-culturally aware, civically engaged young people." To achieve these goals, TFP uses a rigorous youth development methodology system called "Standards and Straight Talk." Known around the agency as "boot camp," Standards and Straight Talk is an agreement between TFP and youth, addressing topics such as proper attire, consequences for misbehavior, and incentives and rewards.
3. **Multiplier Effects.** The third area of measurement is TFP's impact on the community in which it operates and the larger society. These outcomes include: building community, organizational recognition and reinforcing TFP values while inspiring others.

All ventures and programmatic activities are evaluated based on these outcomes; management plans the organization's new activities to address these outcomes.

### ***Looking Ahead***

Gray and her team have ambitious plans to grow the organization—in five years they plan to double its budget and emerge as a leader in the sustainable agricultural community. It may soon pop up around the country as it begins to replicate its winning strategy for bringing young people to the world of sustainable food production. The organization is betting on its winning youth development model and is planning to franchise the program to other interested organizations.

The organization has recently launched BLAST (Building Local Agricultural Systems), a global network of youth and adults working together to build sustainable food systems. Through BLAST, TFP seeks to foster a new generation of leaders who will create innovative solutions to the problems that exist within our current food system. TFP is beginning to offer an increasing number of workshops across the country, and the number of international partnerships is steadily growing.

TFP is also currently negotiating with two organizations, one located north of Boston and the other on the West Coast, interested in starting a Food Project in their communities. TFP intends to work only with organizations that have:

- “Champions” with leadership and management expertise
- A record of service to communities in need
- Access to land in two locations—a suburban and urban site
- Previous fundraising success

### ***Lessons for Success***

- **Determine a break-even threshold ahead of time.** Pat Gray gave several projects three to five years to break even. Make sure you have the capital in place to support a revenue losing program during this time.
- **Break-even takes time.** It took several years for the Community Supported Agriculture program to become self-sufficient. Make sure you and your Board have the patience to hang in there.
- **Run the program as a pilot to test the idea.** Whether it was salsa or Harvest Bags, TFP always piloted their products first.
- **It helps to have a business plan.** The catering pilot could have benefited from a formal business plan, especially given the significant capital requirements of renovating the kitchen. Using local business school students is an economical way to accomplish this.
- **Stay focused on outcomes.** While there are many different programs, everything is linked to a core set of outcomes.
- **Make sure your first entrepreneurial venture is successful before launching others.** Before it started expanding into new ventures, TFP got its core operations in line. The CSA became a self-sustaining venture early on, allowing the organization to expand to other entrepreneurial activity.

***Discussion Questions***

1. How would you characterize TFP's appetite for risk? The organization piloted different ventures at the same time to see which ones would "stick". Is this approach risky or not risky? Why?
2. Given the information provided, which activities would you prioritize right now if you were Pat Gray? If you could find out more information about each of these ventures, what would you want to know?
3. Should TFP outsource its Fresh Salsa product to a production facility? Why or why not?
4. What are the pros and cons of expanding nationally for TFP?
5. Do you agree with the expansion criteria selected by TFP? What other criteria might you add or delete from this list? If you had to prioritize the criteria how would you rank each one?
6. In terms of outcomes, can TFP balance its outcomes in all three areas? What challenges does an organization have when it seeks to meet a "triple bottom line" (youth, environmental and financial)?



## Conclusion

### *Lessons Learned from the Field: A Practitioner's View*

The purpose of these eight profiles has been twofold: both to illustrate success stories and to help organizations navigate potential challenges and pitfalls. Taken together with Seedco's experience in providing technical assistance to nearly 40 organizations that have started ventures, these profiles form the basis of a set of conclusions beneficial to practitioners engaged in, or thinking about, social enterprise. Distilled here into six areas, these conclusions are largely a reiteration of commonly accepted notions in the field, yet they prove to be consistent stumbling blocks time and again. They are the key areas that, when well thought through, contribute to a successful social enterprise. Conversely, ignoring any one of these areas will create a challenging environment for a new venture. The six areas are as follows:

#### **1. Leadership**

Leadership at all levels of the parent organization is critical for a social enterprise to thrive. First, the Board of Directors must be visionary, ready, engaged, and enthusiastic about the venture. If the Board is not yet engaged, the organization must develop a plan to get them on board and bought in. Board involvement is key to moving any venture forward.

At the heart of any vital nonprofit organization and new social enterprise is its Executive Director. This person—the linchpin of any successful enterprise—must be entrepreneurial, pragmatic and bold.

Another key leader is the social enterprise manager, who should be experienced *in the same business* that the organization will launch. While an organization's leaders may think that they have the capacity and competency to run the venture, the enterprise will hinge on a sound manager with tangible operational experience; it is best to look outside the organization for this person.

#### **2. People**

Human resources can make or break the operation of a social enterprise. Therefore, organizations must look at the people involved across the board—not just those at the helm of the organization:

- **Management team.** The venture's management team should possess a strong balance of business and program experience—if not in the same person then at least within the team. A generally accepted notion is that most investors would rather invest in an “A” team with a “B” idea than the other way around. This team must be smart, entrepreneurial, persistent, and unafraid of failure.
- **Volunteer labor.** Do not overlook volunteer labor, which has built some of the most successful projects in social enterprise. Seek out and value this resource.



- **Target population.** It is key to know the population or clientele that will be served and to choose a business that matches its strengths, assets, needs, and interests. Where possible, involve the target population in the planning process for buy-in; be mindful, though, that this can slow the process.
- **Staff.** At the point when the business plan needs to take shape, hiring staff is an important first step. Hire staff ahead of when they are needed, or risk playing catch-up for months in *terms of marketing, operations and customer development*.

### **3. Planning**

It is widely accepted in the field that business planning is critical to the success of a social venture. Having a business or marketing plan may not guarantee success, but *not* having it usually contributes to failure. Some tricks of the trade for business planning:

- **Connect to the mission.** Make sure the social purpose business is connected to the parent organization's mission.
- **Assess the market opportunity.** Complete a thorough market analysis, a common obstacle to business planning. It is not enough that an organization thinks someone "needs" the product or service offered. The question is do they want it? And, most important, will they buy it?
- **Start small.** Many of the most successful ventures have started as pilots. Piloting reduces risk and allows for quick learning in the marketplace.
- **Create strategic alliances.** It is important for organizations to figure out what they are good at and do that; let others pick up the other components such as marketing or producing supplies for a finished product.
- **Mitigate risk.** Identify and analyze the risks ahead of time. A business plan should map out worst-case scenarios and how the organization plans to address them.
- **Seek legal advice.** Sound legal counsel during the planning of the venture will address hurdles early on. This is especially important if an organization is thinking of structuring a venture as a subsidiary or if there are liability issues.

### **4. Financing and Cash**

Without question, a sound financing plan and sufficient cash on hand will enable an organization to launch a social purpose business. While more than half of all social enterprises are not fully capitalized before launching, it is important to plan for the full capitalization of the venture. Even early partial seed money will enable an organization to launch the venture and will help to leverage new capital.

Why is cash on hand so important? Having adequate cash minimizes risk. It can cover both anticipated and unanticipated losses and is especially critical to navigating the early startup phase of the business when operations systems are not fully in place.

In thinking through the financing plan while in the business planning phase, it is vitally important for any organization to determine the ability to run the business at a loss.

Realistically think through the threshold for losses up front – how much cash will be needed to cover payroll, accounts payable, etc? If it typically takes three to five years to reach the break-even, the organization will need to make a decision ahead of time regarding how long the business will run at a deficit before pulling the plug. And along the way, it is important to set milestones to check progress. These checks and balances will help the organization successfully manage the business.

### **5. Real Estate**

Many ventures, especially retail and manufacturing ones, will require the acquisition of space either through purchasing, leasing or expanding current space. Real estate development is practically a venture unto itself. Recall these key lessons on space:

- **Time.** A widely held rule of thumb is that real estate acquisition generally takes twice as long as planned for; build this protracted timeline into a business plan.
- **Cost.** Costs are likely to exceed original budget estimates. Be prepared for unforeseen overruns and expenses.
- **Contracts.** Well written and executed construction documents and contracts, combined with experienced real estate staff and/or consultants, can help avoid exceeding your budgets for both time and costs.

### **6. Expansion**

Once a venture has hit its stride and achieved profitability, an organization should carefully consider growth and expansion. Expansion to new sites, additional geographic areas, or new products can help minimize costs through economies of scale and can maximize the achievement of social outcomes. Moreover, it can spread risk and increase profitability.

One of the biggest challenges to expansion is encountering too much success. Here, the risk is in not meeting customer demand for product or failing to have adequate operating systems in place. As a rule:

- Focus on slow and steady growth at the expense of a “great opportunity” that may not be in the strategic interest of the organization.
- Be willing to say no to more business.
- Be willing to say no to expansion.
- Make sure the first venture is successful before you start another. While some organizations pilot multiple ventures to find the most successful model, this increases risk and potential for losses. A winning strategy is to pilot one venture that is backed up with sound business planning.

## ABOUT THE NONPROFIT VENTURE NETWORK

The Nonprofit Venture Network (NVN) provides assistance to community-based nonprofits launching or expanding social purpose businesses. Social purpose businesses use market-based solutions to further a nonprofit organization's mission, generate income, and address social needs. Since the program's inception in 2001, Seedco has provided technical assistance to more than 250 organizations in New York City, Tampa Bay, and Boston, and is working intensively with more than 40 of these organizations to establish or grow social purpose businesses. NVN offers a package of financial and technical assistance services and low-cost financing delivered in three phases: Learning, Planning, and Implementing. Currently funded by the MetLife Foundation, United Way of Massachusetts Bay, and the Mizuho USA and Ford Foundations, NVN also has been the recipient of support from United Way of New York City and the Eckerd Family Foundation.

## ABOUT SEEDCO

Seedco, a national community development operating intermediary, creates opportunities for low-wage workers and their families by engaging with community partners and anchor institutions to develop, operate and learn from model programs of national significance that:

- 1) help people join the workforce and achieve economic self-sufficiency, 2) assist small businesses, and 3) promote asset building for residents and businesses in economically distressed communities.

Seedco's technical and financial assistance complements the model programs and strives to build the capacity of community partners and small businesses through the introduction of sound, outcome-based management practices.

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